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POWER DYNAMICS, INSTITUTIONAL INSTABILITY AND ECONOMIC GROWTH:

THE CASE OF PAKISTAN

By

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PREFACE

Chapters 1, 2, 4 and 5 have been researched and written by Akmal Hussain. Chapter 3 has been written by Akmal Hussain with Sections II and III being based on inputs provided by Haris Gazdar and Asad Sayeed. It should be noted that, barring minor revisions, this study was completed in April, 2008.

This is the first study that examines the nature of Pakistan's economic growth within the framework of power and institutions. It explores for the first time the question of unstable growth and endemic poverty in the context of the instability of the institutional structure and the underlying dynamics of power. In so doing, the study traces the emerging crisis of state, polity and economy to suggest that at the very moment of its climax there is a potential for its resolution. The study ends by articulating a path to development on the basis of an integrated process of institutional change within the polity, economy and society. A design for pro-poor growth is located within this process of institutional change.

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GLOSSARY OF TERMS

Rent	Unearned income, accrues to an economic asset when the benefit from its use exceeds its opportunity cost.
Institution	An institution is defined by Douglass C. North as a set of formal rules and informal norms, which together with their enforcement mechanisms structure human interaction.
Organization	An organization, according to North, et.al., is a group of individuals pursuing a mix of common and individual goals through varying degrees of coordinated behaviour, within the rules specified by the institution. Thus, while an institution defines the rules of the game, organizations are the players who play that game.
Social Order	A Social Order, according to North, et.al., encompasses “the political, economic, cultural, religious, military and educational systems”. Social orders are distinguished “by their ability to create and maintain contractual organizations”.
Path Dependence	Path Dependence is the tendency of individuals and groups to resist institutional change where such change threatens their interests. Such individuals and groups are willing to invest their energy, resources and time to resist institutional change.
Grundnorm	We have defined the term “Grundnorm” as the foundational set of norms that constitutes the consensus drawn from the core values of a particular society. In this sense the Grundnorm underpins the constitution while being manifested in it.

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INTRODUCTION

This study examines for the first time the question of sustained pro-poor growth in Pakistan within the framework of power and institutional structure. In much of the work in the New Institutional Economics, the analysis of institutions and institutional change is conducted at the micro level for a particular institution. In studying macroeconomic growth processes as we do in this study, the focus necessarily shifts to analyzing *sets* of institutions. In so doing it is the dynamic interrelationships between institutions that come to the fore. Our analysis of these inter-institutional dynamics locates the particular configuration of Pakistan's institutional structure within the underlying power structure.

The recent work of Douglass C. North, et.al, focuses on explaining the stability of the "social order" in underdeveloped countries (North, Wallis and Weingast, 2006). In the Pakistan case the institutional structure is characterized by an inherent instability. Therefore, in Chapter 1, we have attempted to analyze the phenomenon of institutional instability by locating it within the dynamics of Pakistan's power structure. At another level, institutional instability in Pakistan is analyzed in terms of the incongruence between formal rules and informal norms. Despite the existence of formal rules in the most basic institution, the constitution, repeated violations of and instability in the constitutional order persist. We argue that this is because of the lack of an enforcement mechanism drawn from the informal norms, culture and consciousness of the people. We examine the ongoing citizens' movement in Pakistan in terms of its potential to establish such an enforcement mechanism located in the democratic consciousness of the people. The origins of democratic consciousness are explored in historical and sociological perspectives.

In Chapters 2 and 3 we investigate the dynamic relationships between power structure conflicts, institutional instability, and the nature of the economic growth process. Pakistan's rent-based social order is analyzed in historical perspective. We trace the emergence of an economic structure characterized by an unsustainable and unequal growth process within which mass poverty has become endemic. These features are rooted in an institutional structure that excludes a large proportion of the population from

the process of economic growth as well as governance. The institutions in the polity as well as the economy embody an incentive system that generates rents for exclusivist elites, and restricts merit-based selection, competition, efficiency and innovation. Thus, the institutional structure and the incentives it embodies, prevent sustained and equitable growth.

In Chapter 4 we take up the proposition of North, et.al, that within a particular social order, the political and economic systems are organically integrated. In a state of underdevelopment (limited access social order), the rent-based economy is reinforced by a rent-based polity in a “double balance”. By contrast, in a state of development (open access social order), equality of opportunity, merit-based selection, competition, efficiency and innovation characterize the economy and these features are reinforced by the institutional structure of the polity. So one can propose that the challenge of development is to initiate mechanisms of change in the polity and economy through which a transition from underdevelopment to development can be effected. In this chapter we identify some of the major ‘drivers of change’, and some of the specific initiatives that can be undertaken by civil society, government and donors to trigger the process of institutional change.

In Chapter 5 the threads of the analysis are drawn together to formulate the principal propositions that emerge from the discussion in the preceding chapters. Our analysis aims to show that essential to the strategic objective of achieving sustained pro-poor growth, is a process of institutional change in the economy and polity. Such a development process would enable broad-based economic growth that provides equality of opportunity to all sections of society to contribute to Pakistan’s economy through competitive efficiency, innovation and productivity.

The appendices include a pro-poor growth strategy through which higher and more equitable economic growth can be achieved. The growth strategy has two main components. First, a policy of restructuring the macroeconomic growth process to make it pro-poor. Second, a policy to enable what has been termed, “participatory development” through which a localized process of capital accumulation can occur. Such a process,

while it overcomes poverty at the local level, simultaneously contributes to growth, thereby enabling higher and more equitable economic growth. The economic strategy is dialectically related with the proposed drivers of institutional change. While the pro-poor growth process would be sustained by changes in the institutional structure, the participatory development in turn would deepen the process of building a democratic polity.

CHAPTER 1

POWER STRUCTURE, INSTITUTIONAL INSTABILITY AND UNEQUAL GROWTH

By

Akmal Hussain

INTRODUCTION

Pakistan inherited an institutional structure of governance and growth that engendered a rent-based economy and a patron-client model of governance. This led to a growth process that was unstable on the one hand and marked by endemic poverty on the other. At the same time the power structure was dominated by the military and to a lesser extent the bureaucracy and landed elite. The resultant recurrent military interventions into the political system prevented the emergence of a stable democratic and constitutional order that had been envisaged by the founding fathers at the time of independence. The political and economic dynamics of such a power structure have today reached a point where the country faces a grave institutional crisis that is beginning to undermine the legitimacy of state authority on the one hand and the writ of the state on the other. Armed militias of Al Qaeda and Taliban are carving out significant swathes of Pakistan's territory, and its political and social structure. At the same time, the moderate and secular citizens in civil society are engaged in street protests against a government that is being seen as illegitimate. There is, therefore, a threat to the fabric of society and the very integrity of the state.

In this and the following chapter, we will examine for the first time the dynamics of Pakistan's polity and economy in the perspective of the New Institutional Economics (NIE). We will attempt to apply the theoretical framework of both Douglass C. North and Adrian Leftwich. In so doing, we will take forward some of the concepts of both.

In Chapter 1 we will begin with a discussion of the structural constraints to growth with equity and show how they are located in Pakistan's power structure and the associated model of governance. We will then attempt to analyze for the first time the problem of institutional instability with respect to the constitution. In so doing, the relationship between formal rules, informal norms and consciousness will be indicated. Finally, the ongoing citizens' movement for constitutional rule will be analyzed as a potential trigger of institutional change for the building of a stable democratic order. We will argue that the role of consciousness and the apprehension of the core values of a society are critical to both the process of institutional change and the establishment of a stable democratic polity. The chapter ends with a discussion of the origins of democratic consciousness in the people of Pakistan.

I. POLITICS, POWER STRUCTURE AND GROWTH

Economists in the 18th and 19th centuries, from Adam Smith to Karl Marx, in spite of their widely differing methodologies, shared in their political economy approach the view that politics was fundamental to both understanding and changing the economy. It was only in the century from Alfred Marshall (the late 19th century) to Samuelson (in the late 20th century) that mainstream economics began to be conceived as a science divorced from politics (Samuelson, 1969 and Solow, 1985)¹. It was the emergence of the New Institutional Economics with its focus on institutions that brought politics back to economics as a central concern. Therefore, in the context of 20th century Neo-Classical economics, Douglass North's proposition that "the polity...is the primary source of economic performance" is stunningly iconoclastic (North, 2005)². North shows how institutions as a set of formal rules and informal norms structure human behaviour and thereby underlie the functioning of markets at a microeconomic level. Adrian Leftwich who carries forward the NIE by focusing on macroeconomic development processes also argues the centrality of politics in economic development when he says, "...there is now widespread recognition that politics is fundamental, if not primary, in shaping development choices, strategies, trajectories and outcomes" (Leftwich, 2006)³.

North has focused primarily on institutions at the micro level and provided an understanding of how they structure human behaviour. His pioneering work, particularly

his more recent one (North, 2005)⁴, provides an insight into the phenomenon of path dependence within individual institutions, whereby organizations invest money, time and energy to maintain the status quo and prevent institutional change. In Pakistan's case, by contrast, we will analyze the phenomenon of institutional instability and the nature of the social forces that could bring about institutional change. (See Section III of this chapter).

Adrian Leftwich, unlike North, has articulated a framework for studying the dynamics of a political system, thereby shifting the analysis to a macro level. (Adrian Leftwich, 2006)⁵. In so doing, it is my contention that it is *sets* of institutions, rather than individual ones that emerge as the subject of investigation. He proposes the examination of power structures as well as institutions. However, the link between the two is unclear. I would suggest that when studying sets of institutions it is the *relationship* between them that becomes important. Herein lies a possible link between institutions and power structure. Two propositions may be presented in this context:

- (1) *The way a particular set of institutions is configured and hence the dynamics between them are determined within the underlying structure of power.*
- (2) *It is the particular balance between various factions within the power structure that conditions the dynamic interrelationships within the set of institutions being considered.*

It follows from the above propositions that the power structure influences both individual markets as well as economic policy. It is through the interaction between the functioning of markets and economic policy that the nature of the growth process is determined. Thus, *the power structure of a particular country shapes its set of institutions as much as it gives content to the process of both governance and growth.* (For an illustration of this proposition in Pakistan's case, see Chapter 2).

II. **POWER AND THE STRUCTURAL CONSTRAINTS TO GROWTH WITH EQUITY**

In Pakistan unstable GDP growth and endemic poverty are located in the structure of power at both the national and local levels. These power structures configure markets to make them asymmetric with respect to the rich and poor. At the same time the associated polity, by excluding the majority of the population from high quality education and health facilities and giving unequal access over capital, land and labour markets, serves to build inequality and poverty into the structure of the growth process itself. It is now widely recognized that inequality adversely affects both the sustainability of growth as well as its capacity for poverty reduction (WB Report, 2006)⁶. The power structure, and the inequality it engenders, excludes a large proportion of the population (the poor, women, the sick and the illiterate). Therefore, there is a constriction of the human potential through which entrepreneurship, investment, innovation and productivity growth can occur to sustain GDP growth.

At the same time, the poverty reduction capacity of growth is constrained by the institutional environment of the state and the economy: The poor face a structure of state power, markets and institutions, which discriminate against their access over resources, public services and government decision making (Hussain, 2000)⁷.

It can be argued that both the failure to achieve sustained high growth in the past as well as inequality is located in the governance model itself. In Pakistan's governance model (originating in the Raj), power has historically been constituted by accessing state resources for arbitrary transfer as patronage to selected individuals (Hussain, 2000)⁸. During the pre-independence period resource gratification within this governance model was conducted to win loyalty for the Raj. After independence, state resources were granted within a structure of patronage to build individual domains of political power (Hussain 2000)⁹. Within this model an individual could become rich simply by entering into a patron-client relationship with the government for rent-seeking. Therefore, there was little incentive for enterprise, innovation, or savings, which drive growth in a modern economy. At the same time within this governance model, since patronage could only be acquired by the few, the majority were deprived of access to resources. Thus, endemic

poverty and the inability to sustain economic growth became the hallmarks of Pakistan's economy.

The awarding of licenses, government contracts, subsidies and loans have been some of the typical forms of granting rent to favoured individuals and groups. Nadeem ul Haque contrasts these "licensee businessmen" with those in the informal sector who face both uncertainty and high costs resulting from the government's exclusionary policy and concludes: "It is no wonder that indigenous enterprise does not grow and wealth remains concentrated in the hands of those the government favours" (Haque, 2006)¹⁰.

Let us now examine eight structural constraints to equitable and sustainable growth emanating from Pakistan's governance model indicated above:

1. *Asymmetric markets for inputs and outputs.* In the UNDP Pakistan National Human Development Report (NHDR) 2003, I have argued that local elite power structures in rural areas distort markets in favour of the rich and against the poor. Poor peasants face input and output markets where they have to pay a higher price for their inputs and get a lower price for their outputs compared to large farmers. The study showed that poor peasants are losing as much as one third of their income due to asymmetric markets (Hussain, et.al., 2003)¹¹.
2. *Unequal access to markets for land, labour and capital.* The second constraint to growth and equality is unequal access to markets for land, labour and capital. The highly unequal distribution of land ownership in Pakistan together with widespread tenancy is a major structural factor in rural income inequality (Hussain, 1989)¹². This is further reinforced by distortions in the land market arising from inadequate documentation of land rights and lack of access over credit for purchase of land. Consequently, the tenant has neither the ability nor the incentive to increase productivity, thereby further accentuating income inequality.
3. *Extra-economic control over tenants and labour exploitation.* In landlord-dominated areas, where landlords control the local state apparatus as well as the credit market, poor tenants are locked into a nexus of power and debt bondage with the

landlord. Consequently the tenants are obliged to work part-time on the landlord's farm as labourers either at less than market wage or for no wage at all. The NHDR survey data shows that 51 percent of tenants get locked into debt dependence on the landlord, and out of these, 57 percent are obliged to work as labourers on the landlord's farm without wages, while 14 percent work for a wage below the market rate (Hussain, et.al., 2003)¹³. Thus, the structure of power and dependence creates distortions in the labour and capital markets, which systematically deprive the poor of their actual and potential income. The consequent inefficiency in the allocation of labour and capital resources constrains agricultural growth, increases inequality and engenders persistent poverty (see Table 1).

4. *Lack of access over health, sanitation and drinking water.* The NHDR showed that due to inadequate diet and lack of access over safe drinking water and sanitation facilities, 65 percent of the poor in the sample survey were suffering from ill health. The study showed that the prevalence of disease amongst those who are slightly above the poverty line is a major factor in pushing them into poverty. Those who are already poor get pushed into deeper poverty as a result of loss of income due to absence from work, and high medical costs resulting from illness. Thus, the unequal access over public health facilities and the relatively high prevalence of disease amongst the poor becomes a structural factor that further accentuates both poverty and inequality.

5. *Lack of access over security and judicial services.* The poor live in localities, both rural and urban, which are inadequately policed. In case of theft or violence against their person the cost of seeking redress through the judicial system is in most cases unaffordable, and where undertaken the expenses in terms of time and money lock the poor into permanent debt. This is another factor that engenders endemic poverty, reinforces inequality and thereby constrains economic growth (see Table 2(a) and 2(b)).

6. *Low domestic savings rate, debt and asymmetric taxation.* Given the rent-based governance model in Pakistan the business elite enjoys various forms of financial support from the government (subsidies, cheap credit, import protection, tax exemptions). Therefore, it is not surprising that entrepreneurs (many of whom are also landlords)

following the tradition of the landed elite engage in conspicuous consumption and tend to have a low propensity to save.

The domestic savings rate in Pakistan has historically been below the investment rate, thereby creating a persistent savings gap that has induced a growing national debt, particularly during high GDP growth periods. For example, the average annual domestic savings as a percentage of GDP during the period 2001 to 2007 was 16.5 percent. By contrast the investment rate required to sustain the target growth rate of 7.5% with an Incremental Capital Output Ratio (ICOR) of 4, is 30%¹⁴. The consequent debt servicing problem has now become a constraint to growth just as it did in the Ayub period in the 1960s and in the Benazir-Nawaz period in the 1990s. The low savings rate and the consequent dependence on foreign inflows is a major factor in the stop-go pattern of GDP growth in Pakistan's history (for a detailed discussion, see Chapter 2).

The high debt servicing requirements resulting from a tendency of the rent-seeking elite to consume rather than save, and at the same time avoid direct taxes, has obliged successive governments to charge high and increasing rates of indirect taxes. An earlier study on the increase in the incidence of the tax burden shows that the percentage increase in the tax burden as a percentage of income was highest at 6.8% for the lowest income group (less than Rs.700/- per month) and lowest at -4.3 percent for the highest income group, (over Rs.4500/- per month). The evidence shows that over time the tax burden for the poor increased and for the rich declined¹⁵. Thus, the rent-based governance model and its incentive systems have induced a pattern of elite consumption and government tax policy that further reinforces income inequality in the growth process.

7. *Institutions, export structure and growth.* Pakistan as it emerged in 1947 not only inherited various institutions of the state with their underlying structures of power, but also the rent-seeking and risk-averse behavioural proclivities of the economic elite. In the post-independence period, the inherited governance model, the power structures, the associated institutional framework, and the tradition-bound nature of the industrial elite, had as great an impact on government economic policy as on the pattern of investment and export growth.

Pakistan's slow export growth and the consequent perennial pressures on the balance of payments constitute a structural constraint to sustaining high GDP growth. Slow export growth is rooted in the rent-seeking nature of the industrial elite and its failure to diversify into non-traditional high value-added exports. Even after 60 years of industrial growth, the percentage of total investment going into textiles and related goods has not declined (it was 41 percent in 1964-65 and 44 percent in 1990-91). This industry, which has remained at the lower end of the value-added range in the textile sector, emerged in the 1960s as a result of large government subsidies (see Chapter 2 for a detailed discussion). The institutional structure of policy created disincentives to innovation, increases in productivity and export diversification. By the 1990s the structure of state support to industry was substantially dismantled. However, even then, as late as 1990-91 as much as seven percent of GDP was transferred by the government to industrialists in the form of subsidies (Kemal, 1999)¹⁶. Diversification of industry into higher value-added exports was constrained by government patronage on the one hand, and on the other the lack of risk taking dynamism amongst most industrialists.

8. *Education, poverty and growth.* The relatively low levels of literacy, high school enrolment rates and the poor quality of both school education as well as higher education in Pakistan compared to other South Asian countries indicates the low priority given to education. This is understandable in a country where allocation of public resources and the institutional framework for translating them into outcomes are determined by a ruling elite in which the military, the bureaucracy and the landlords have been dominant factions. Within this power structure there is greater priority for expenditures on the military, bureaucracy, and transfer of public resources as rents to various strata of the elite and its dependents. Building an institutional framework for higher education based on high quality research is also not a high priority. Education requires an environment of freedom to pose and pursue new questions and to engage in critical thinking. This is inimical to a rent-based power structure that relies on authoritarian rule whether in a military or civilian form.

Although the literacy rate has increased sharply from 46 percent in 1999 to 54 percent in 2006, the gender gap remains high (23 percentage points) and has not changed significantly over the period¹⁷. The gross primary school enrolment rate at about 70

percent has remained unchanged over the last two decades in spite of the multibillion dollar Social Action Programme during the 1990s. At the same time almost 25 percent of the total population (over 40 million) consists of adult illiterates. Due to the relatively low school enrolment rates the number of adult illiterates is expected to rise during the coming decade, thereby increasing poverty even if greater employment opportunities become available. In Pakistan, 91.6 percent (Majid, 1997)¹⁸ of the labour force is unskilled, with low productivity and poor adaptability to technical change. This constitutes a significant structural constraint to both growth and poverty reduction.

My work for the Pakistan National Human Development Report shows that one of the key factors that can pull a poor household out of poverty is whether or not the family has a second earner. The data indicates that the magnitude of the second earner's income depends on the level of education (Hussain, et.al., 2003)¹⁹.

The poor coverage and quality of school education and vocational training in Pakistan thus constitutes a significant structural constraint to growth as well as poverty reduction. The extremely poor quality of higher education in most universities of Pakistan and the control of many of them by obscurantist and coercive religious groups is a constraint to building an enlightened, pluralistic and democratic polity. The inadequate educational infrastructure is therefore not only a structural constraint to growth and poverty reduction, but is also an important factor that contributes to path dependence. It is consequently a constraint to the transition into what North²⁰ calls an "open access" or "modern" economy.

III. CONSTITUTIONAL INSTABILITY: FORMAL RULES, INFORMAL NORMS AND CONSCIOUSNESS

Pakistan's political history is characterized by recurrent violations²¹ of the constitution by both the military as well as elected civilian governments. This indicates the failure so far to build a consensus about the constitution. The question is why? In seeking an explanation for constitutional instability in Pakistan, it may be useful to examine the relationship between formal rules and informal norms, and also between legitimacy and national consciousness.

Constitution, consensus, informal norms and the Grundnorm. The problem can be examined in terms of the nature of the conflict between elite factions on the one hand and the failure to achieve what Kelsen calls a “Grundnorm” (Kelsen, 1967)²². Let us begin by distinguishing between a constitution and the Grundnorm. The constitution is a legal document specifying what Hayek calls a “set of rules” concerned on the one hand with the internal organization of the state and with constraints on its actions on the other (Hayek, 1960)²³. By contrast it can be argued that the Grundnorm is that particular consensus that is drawn from the core values of a society and which define its nationhood. It may be proposed that the constitutional instability in Pakistan is rooted in the lack of apprehension of such a Grundnorm on the one hand, and on the other hand a military dominated power structure within which elite factions pursue conflict rather than cooperation.

The distinction between the constitution (a legal document) and the Grundnorm can be understood at three levels: (a) in terms of the basis of law, (b) in terms of a set of organizational rules, and (c) in terms of an aspiration for freedom which may be essential to our humanity.

Beginning with the first level, one may ask the question, what gives meaning to law? Is law (as some scholars hold) simply a set of orders backed by sanctions? Take the example of a person held up by gangsters who command him to give up his wallet or get shot. This is certainly a command backed up by sanctions. The poor fellow may actually give up his wallet for pragmatic reasons. Yet his compliance is not a legal obligation. Thus, the question of a legal obligation is more than merely the fact of a command backed by sanctions.

Kelsen argues that acts have legal meaning in the context of norms. It is linked with the idea of what one ought or ought not to do. People normally do not steal because of the norm that one ought to follow criminal statutes. This depends upon the norm that one ought to follow the constitution. The question is what is the norm in terms of which it is obligatory to follow the constitution? This is the Grundnorm, which is part of the

civilizational content of a nation, the core values in terms of which a nation experiences its identity or defines its common purpose.

The second level of understanding the distinction between the constitution and the Grundnorm is in terms of F.A. Hayek's analysis. He examines the concept of a constitution as a set of organizational rules. He distinguishes between a "spontaneous order" and an organization. While in a spontaneous order individuals are bound only by "general rules of just conduct", in an organization they are subject to "specific directions by authority" (Hayek, 1960)²⁴. It can be argued that while a constitution specifies a set of organizational rules governing the conduct of the state, the *source* of a constitution is embedded in what Hayek calls a "spontaneous order" and Kelsen calls a "Grundnorm".

The third level at which the *source* of a constitution can perhaps be determined is what G.W.F. Hegel calls the "spirit" of a nation. Hegel in his lectures on the Philosophy of World History, argues that the spirit of a nation, when it is fully developed, becomes aware of itself²⁵. It is a consciousness of "its own ends and interests, and of the principles which underlie them". For Hegel, the spirit of each nation has its own specific defining principles, and each nation seeks to realize its own end. Yet the "substance of the spirit is freedom" (Hegel, 1984). In more recent times Monsieur Dominique de Villepin, the scholarly former French Foreign Minister (later Prime Minister), explicated on the Hegelian concept of the spirit. In a lecture on October 19th, 2003 on the BBC, he talked of the specific national identities of France and Britain respectively and referred to the spirit that moved each of these nations, and the broader European identity. He explained how for several centuries France and Britain had undergone similar ordeals: the struggle for democracy against absolute monarchy, decolonization and the resistance against the Nazis. All this "forged a common heritage", and reinforced a national consciousness manifested by a "...fierce sense of independence, a certain national pride, the refusal to surrender and an absolute faith in justice and freedom."

Informal norms, national identity and consciousness. Villepin's observation illustrates the simple fact of contemporary history that nations exist with certain specific national identities. Each national identity is constituted by language (and the world it implies),

culture, forms of apprehending their humanity by a people, a shared experience of the past or solidarity for a common purpose in the future. These elements of national identity feed into national consciousness. Indeed, they enrich broader identities spanning regional groupings of countries and the global community in general. Therefore, in the context of this analysis, national consciousness can be defined as: *the experiential dimension of historical bonding amongst a group of people, in terms of which they apprehend their identity and pursue shared goals for the future.*

National consciousness can be understood as a nation's collective experience of itself: the cadences of its specific creativity. It has features, which though real in an ontological sense, cannot be encapsulated in empiricist language forms (which eliminate ambiguity and hence resonance, within the emotional imagination). Wittgenstein, the great linguistic philosopher of the 20th century, perhaps referred to this when he said: "of that which we can not speak about, we must be silent" (Wittgenstein, 1921)²⁶. That is why in some cases national consciousness is articulated through poets who strike a chord in the hearts of a nation. Consider Sir Muhammad Iqbal who enabled the Muslims of India in the early 20th century to experience their creativity, authenticity and freedom as human beings:

Develop your creative identity to such a level that God himself before articulating each destiny, may ask Man what is your will?

Muhammad Iqbal²⁷ (Translation mine)

Faiz Ahmed Faiz wove from the specific images of nature and social life in the subcontinent, the tapestry of love and social transformation. He too evoked national consciousness in terms of a shared dream for a more humane society based on love, equality and justice:

Last night your remembrance traversed the terrain of my heart, like the lingering whisper of an evening breeze. Faiz Ahmed Faiz²⁸ (Translation mine)

Najam Hussain Syed has articulated national consciousness in terms of the love and rebellion of the oppressed peasantry. He expresses the longing for change and the sense of relatedness with the community by evoking the "unsaid" in our collective consciousness:

Amidst the dust enveloped hamlets, why do I feel the beckoning warmth of the unsaid? Najam Hussain Syed²⁹ (Translation mine)

Poets and artists play a role in articulating and developing national consciousness through the aesthetic imagination. They combine the specific images of a land and its forms of social life to evoke the aesthetic experience of collective identity that may be national or regional and yet inseparable from the universal.

For a long while national consciousness may lie dormant in the dreams of poets. However, it can emerge more fully and become concrete through education and social interaction in an open and tolerant society. National consciousness is nurtured in a society where people can interact with love and reason, where they can actualize their creative potential and thereby develop a common stake in citizenship.

Defining the constitution and the conditions of stability. The repeated destabilization of the constitutional order due to the unbridled pursuit of power by elected politicians as much as by the military indicates the challenge to reach a consensus on the Grundnorm. If such a Grundnorm does not exist, the constitution would be (as General Zia ul Haq once put it) “just a piece of paper”³⁰. On the other hand, if the Grundnorm existed not just as a set of formal rules, but as informal norms organic to the consciousness and value system of society, then no individual or group whether civilian or military could suspend the constitution. They would have to face popular resistance.

In terms of the relationship between formal institutions and informal norms, as discussed above, we can now define the constitution as the *Supreme National Institution*. It is so, because it draws upon all the other institutions of society, while all institutions of the state flow from it. Thus, we may advance the following proposition:

The Supreme National Institution consists of both the formal rules which a constitution embodies as well as the informal norms on the basis of which the formal rules are enforced by a particular society.

A constitution with just formal rules, without the underpinning of the informal norms in society, would be inherently unstable because it would lack an enforcement mechanism.

In this sense Pakistan's constitutional instability can be explained in terms of the fact that the constitution has not yet become a *Supreme National Institution*. How do we get there? A process of education, reasoned debate and sustained political and cultural action through political parties as well as social groups in civil society can lead to a consensus. Such a consensus (or informal norms) would underpin the constitution and give it stability. A consensus about the constitution located in the core values of a society signifies that the people have become fully conscious that the constitution is an embodiment of their will. It is only then that they will preserve, protect and defend it.

IV. THE PROCESS OF CONSENSUS BUILDING: THE CITIZENS' MOVEMENT FOR CONSTITUTIONAL RULE

IV.1 Legitimacy, Protest and Consensus

The ongoing citizens' movement can be seen as a defining moment in the process of building a consensus for constitutional rule. It is the emergence of a consciousness in terms of which the nation is beginning to establish the norms of legitimacy. The citizens are erecting what North calls the "scaffolding" (North, 2005)³¹ for Pakistan's polity. The first phase began with the sacking of the Chief Justice of Pakistan, Mr. Justice Iftikhar Chaudhry on March 9, 2007, and ended successfully with his reinstatement on July 20th of the same year. The second phase began on November 3, 2007 with the suspension of the constitution and fundamental rights of citizens by the Chief of Army Staff, and the sacking of all Supreme Court Judges. Let us examine this movement as a trigger of change for building a national consensus. In terms of our analysis in the preceding section this movement signifies the emergence of the Grundnorm. In the context of North's framework the citizens' movement also can be seen as the expression of the particular set of informal norms (and the underlying belief system) that underpin the formal rules of the constitution and determine its enforcement mechanism. It expresses a consciousness that the formal rules of the constitution embody the Will of the People, their core values in terms of which the nation defines its identity.

On March 9, 2007, the Chief Justice of Pakistan triggered the movement for independence of the judiciary by refusing to resign following the reference against him.

He awakened a nation to its rights as he bore with dignity the tribulations of illegal detention, and physical manhandling by the police on his way to the Supreme Court. The sounds of tear gas shells punctuated the cry for constitutional rule as lawyers demonstrated on the streets of Lahore, Karachi, Quetta, and Islamabad. Journalists bravely defended the right of free expression by continuing to report events and public opinion even as the police launched a violent assault on one of their offices to coerce them into submission. Each day brought new resistance to governmental excess; on the streets of Pakistan's cities, new heroes emerged in the expression of what Rousseau called the "General Will". In so doing, the nation began to rediscover itself. The lawyers with their passionate rationality, the journalists defiant before the baton and the boot strove to establish the values and norms, which underpin the formal institutions of governance.

The first phase of the citizens' movement, which was led by the lawyers, ended with the reinstatement of Chief Justice Iftikhar Chaudhry on July 20, 2007. The second phase of the citizens' movement began with spontaneous protests by citizens' groups, lawyers and journalists. It was triggered by the order of the Chief of Army Staff on November 3, 2007 to suspend the constitution, dismiss the judges of the Supreme Court, withdraw fundamental rights of citizens and gag the media. The significance of the movement in both phases is that the terms on which the people of Pakistan will grant legitimacy to a government are being defined. To understand the ongoing citizens' movement, therefore, let us examine the concept of legitimacy and its relationship with state and society.

In examining the nature of legitimacy two key questions arise: (i) What justifies political obedience as a lawful obligation? Conversely, what gives to a government the right to rule? (ii) What is the source of the common interest or the General Will on the basis of which a people grant to a government the right to rule?

Let us briefly examine each of these questions. First, as Rousseau has argued it is not force that grants to a government a right to rule and to the citizens a normative obligation of compliance. The source of legitimate authority resides in a free "*covenant*". Only such a "Social Contract" could engender compliance not through fear but through the sense of

common interest, which is manifested in what Rousseau calls the “General Will”. Thus, the foundation of a state and its political order is the “reasoned establishment of a principle of legitimacy” (J.G. Merquior, 1980)³². The logic of legitimacy and the embodiment of the General Will in Pakistan as in any other civilized state must surely reside in the constitution. The citizens of Pakistan are now striving for re-establishment of the Constitution of 1973.

In addressing the second question, the essential proposition is that the Social Contract becomes the General Will when it guarantees freedom, the equality of all citizens before the law, and the protection of those human rights which a particular people deem to be essential to them. This proposition has a vital implication for nationhood: It is in the granting of legitimacy to a state and its political order that a people become a nation. This is because the granting of legitimacy involves the apprehension of the common interest and the exercise of the General Will. It is in exercising the General Will that the people become conscious of the particular values that are essential to them and which articulate their collective identity. *Thus the granting of legitimacy by a people simultaneously constitutes the foundation of both state and society.*

In the context of the above argument, what then is the significance of the street protests in Pakistan? It is certainly not ‘an attempt by misguided elements to create lawlessness and disorder’ as the government would like to believe. On the contrary, *it is a battle for the rule of law and for a political order that seeks the compliance of citizens not through brute force but legitimacy.* Consider the issue that sparked the first phase of the street protests in March, 2007. The issue was not merely the filing of the reference against the Chief Justice of Pakistan (CJP) by President General Musharraf. On receiving the reference from the government, the President had the legal right, indeed the obligation to file the reference before the Supreme Judicial Council. The issue rather is the *treatment* of the Chief Justice: First, the unconstitutional ‘summoning’ of the CJP to the Army House to appear before a uniformed General Musharraf; second, the unconstitutional suspension of the CJP when he refused to resign; third, the illegal detention of the CJP; fourth, denying him access to lawyers in the initial period; fifth, denying him newspapers, television, computer, telephone and a functioning means of transport; sixth, preventing

his children from going to school; and seventh, the physical manhandling of the CJP and pushing him into a car by the police, when he was walking to the Supreme Court for the first hearing of the Supreme Judicial Council. The issue is that in the government's treatment of the CJP there was both a lack of constitutional authority and impropriety in terms of the norms of a civilized society.

The second phase of the street protests began on November 3rd. The order by the Army Chief to suspend the constitution, in spite of a suo moto order by the Supreme Court that the decision was illegal, was regarded by the citizens to be a grave violation of the constitution. There was a spontaneous protest across a wide range of citizens' groups in the urban areas including lawyers, journalists, human rights activists, university teachers and students and even schoolchildren.

What is happening on the streets of Pakistan is that the people are drawing the line with their steadfast resistance in the face of state violence, imprisonment and intimidation; through their protest the citizens are saying, enough, we will not allow any government henceforth to treat Pakistan's citizens and its institutions outside the framework of law and propriety. In so doing, the people are reaffirming their sovereignty. The street demonstrations signify a collision between the Will of the People and a government whose actions have put its legitimacy into question. When the people assert the General Will, when individuals get their craniums cracked for what they perceive to be the common interest, the core values of the nation are being affirmed.

There is in the ongoing movement an aspect of moral outrage against injustice that is shared by people across the country. For example, on May 12, 2007, it is widely believed that the Mutthida Qaumi Mahaz (MQM), which was a political party allied to the federal government, tried to "show its strength" by preventing the Chief Justice from addressing the local Bar Association. Armed political cadres opened automatic fire indiscriminately on the gathering unarmed crowd. Carnage ensued. The following day there was a countrywide protest strike from Karachi to Khyber by the people of Pakistan united in their moral outrage. As Barrington Moore, Jr. has argued, moral anger and the associated sense of injustice is rooted in the sense of injury that is felt when a social rule is

perceived to have been violated (Moore, 1978)³³. It can be argued, therefore, that the present protest movement implies the affirmation of shared norms and values by the people of Pakistan. It is these essential values and the norms representing them that serve to build a consensus for constitutional rule.

IV.2 Institutional Balance, Decorum, Respect and the Military

In the political struggle for a constitutional order, particularly during the present citizens' movement, there is widespread resentment against military intervention into the political system. The military is now being perceived even in the Punjab (the province from which military personnel are predominantly drawn) as an instrument of destabilizing the constitutional order. Consequently, public resentment is beginning to be directed against the military as an organization. It is for this reason that President General Musharraf felt obliged to declare that it is "the responsibility of every Pakistani to respect national institutions such as the military"³⁴. Respect granted by citizens to a particular organization of the state of course emanates from the legitimacy of the institutional structure within which individual state organizations are located. In this regard we will analyze the nature of individual institutions in terms of the relationship between them. Here the concepts of balance and decorum respectively will be introduced.

Let us begin by distinguishing between an organisation and an institution in the light of the New Institutional Economics pioneered by Douglass North.

An institution is defined as a set of formal rules combined with informal norms which, together with enforcement mechanisms, aim to direct human behaviour towards institutional aims. While formal rules are consciously designed at a moment in time to embody a set of incentives and disincentives, informal rules are drawn from culture, values and consciousness as they have emerged over time. Both are necessary for the 'structured human interaction' that institutions aim to achieve, and which is the stuff of history, both past and present.

In contrast to institutions, organisations are groups of people who, in the pursuit of their interests, act within the framework of the institution. Thus, institutions are the rules of the

game, while those who play it are organisations. If the enforcement mechanisms of rules either through state power or through social pressure are weak, then it is rational to expect that a particular organisation will pursue its self-interest by breaking the rules.

In this perspective Pakistan's military as an organization is that group of fine young men (and recently) women, who have the weapons, the training and the motivation to defend the geographic borders of the country. Such an organization, which defends the country within which the freedom and welfare of citizens is pursued, would normally be expected to be given due respect. Such respect and public support is necessary if the war against the Al Qaeda-Taliban alliance is to be successfully prosecuted. Why is it then that there is such widespread resentment among Pakistan's citizens today that the President has to urge the citizens to give respect to the military?

Perhaps this is because as an organisation it has gone beyond the formal rules, the institutional limits originally envisaged by the constitution. From being an armed force exclusively assigned by the Will of the People (as embodied in the constitution) the task of defending Pakistan's geographic frontiers, it has enlarged its role to become a major player in the politics and economy of the country.

What then are the necessary conditions for the military to win the respect of the people of Pakistan? In the context of a state, the identity of any particular institution is articulated by the *structure* of state institutions within which it is located. The central feature of the structure of a state is the *balance* between its various institutions. In a democracy (and Pakistan was conceived by its founding fathers as one) there is a separation of powers between the various pillars of the state: the parliament, the judiciary and the government (executive), with the free media being the fourth pillar. The military in this context is simply a subordinate arm of elected civilian authority.

Within such a democratic structure the purpose of separation of powers among the various pillars and the balance thereof is to establish the necessary checks to arbitrary power. Thus, institutional balance is designed to secure individual freedom and human rights, both of which are essential to a democracy. It follows, therefore, that a particular

institution can win the respect of the people only in so far as it is shaped *by* and balanced *within* a structure of institutions that embody the Will of the People.

If any institution goes out of balance relative to the other institutions, two consequences ensue. First, the entire structure of state institutions is destabilised and hence the legitimacy of the state is put into question. Second, if an individual organization arrogates to itself disproportionate power and thereby goes beyond the bounds specified by the basic structure of the constitution, then in fact such an organization is weakened. This is because as its identity and balance within the institutional structure vis-à-vis other state organizations is eroded, so too is its strength, which is drawn from the Will of the People.

There was no more vivid a metaphor of the erosion of the military's identity and institutional balance than the image of a President in uniform. The incongruity of the President in the uniform of a General disturbed the decorum required in the relationship between the elected President and the Army Chief subordinate to him. Decorum in the context of institutions has not yet been researched in the literature of the New Institutional Economics. Yet I think it is important in this regard. One can posit that decorum makes palpable through the choreography of comportment, poise and the stylised actions of living individuals, the abstract rules of structured interaction that define an institution. Decorum is also embedded in social norms, which when violated cause a sense of outrage.

It can be argued that at the heart of the current popular movement led by the lawyers is a sense of outrage at the violation of decorum in the relationship between the government on the one hand and the judiciary and media on the other. Some of the images that signify this phenomenon are: the President in uniform conversing with the Chief Justice of the Supreme Court, imperiously summoned to Army House; the hand of a security official holding the Chief Justice by the hair and dragging him into a car; an armoured personnel carrier firing tear-gas shells into the Lahore High Court compound; uniformed policemen kicking and smashing the transparent glass walls of Geo TV Station in Islamabad; armed gunmen firing sustained volleys into the office building of Aaj TV in Karachi at one location, and at another location, firing indiscriminately into a crowd assembling to

receive the Chief Justice; police kicking and hitting with batons, unarmed lawyers, journalists and other citizens protesting against Martial Law after November 3, 2007.

These images are etched into the public memory and induce a visceral experience of the loss of balance among state institutions. The popular movement these images fuel essentially aims to redress that balance. It seeks to give order and proportion and thereby strength to Pakistan's institutional edifice.

What gives strength to the military as an organisation? Its strength lies not only in its weapons but more essentially, is drawn from the institutional rules that determine the military's constitutional authority. It is this legitimate authority drawn from the Will of the People that is vital to the moral strength and sense of honour of its personnel, and is the basis of respect given it by the citizens. Thus, achieving the respect of the people requires the military to return to its institutional home. It is only by functioning within the formal rules that constitute its institutional identity and are articulated by the basic structure of the constitution, that the military can win the respect due it.

IV.3 The Conditions for Establishing Order

Let us now consider the requirements for establishing order. As Douglass North has argued, order can in principle be established through an authoritarian rule (without the consent of the governed) predicated on conformity (North, 2005)³⁵. This submission to authority is attributed to a mixture of coercive force by the ruler and social norms whereby the citizens deem it in their interest to submit (North, 2005)³⁶. It can be argued that the establishment of order even within authoritarian governance is possible only when coercive force can be used effectively against those who challenge the state. As we have seen, Pakistan's security forces have been unable so far to defeat the combined forces of Al Qaeda and the Taliban when they attacked first the tribal areas in the north and then some of the settled areas. Waziristan has been lost and most of the main towns of Swat fell in rapid succession, with the Pakistan flag taken down and the flag of the Taliban being ceremoniously hoisted on government buildings. It is clear that an authoritarian government was unable to exercise force effectively, thereby creating disorder.

What makes the maintenance of dictatorial rule even more difficult is that the prevalent social norms induce citizens of the state to resist rather than submit to oppression. The people of Pakistan aspire to freedom and democracy. This is why historically even military governments have found it necessary to constitute a civilian façade. Thus, in Pakistan's historical experience undemocratic governments lack legitimacy and therefore are unable to use state power effectively either against their own people (as in the case of the popular revolt in East Pakistan in 1971, now Bangladesh), or against foreign non-state entities as in the case of the Al Qaeda-Taliban combination in operation today.

In contrast to authoritarian rule, North argues that the underpinning of democracy and constitutional rule is a particular *consciousness*, (a common belief system) which translates into a set of institutions conceived to be legitimate (North, 2005)³⁷. Consensual order, therefore, requires both legitimate institutions and the consciousness of people which induces them to resist rulers who deviate from democracy. Therein lies the importance of the present popular movement: It is defending what we have called the *Supreme National Institution*, the constitution, and the institutions of state and society that flow from it. In so doing, the citizens are apprehending their core values and establishing the informal norms that are vital for sustaining the formal rules of the constitution.

V. THE HISTORICAL ORIGINS OF DEMOCRATIC CONSCIOUSNESS

In South Asia the interaction of diverse cultures across millennia has brought to the surface certain fundamental features of each, which while being rooted in its specific linguistic, religious and social *form* are essentially of a universal nature. The particular configuration of these trans-cultural and universal features of human experience in South Asia constitutes the unique civilizational identity of this region. It is what Jawaharlal Nehru called “unity in diversity” (Nehru, 1946)³⁸. The people of Pakistan like the other countries of South Asia share this broader identity while maintaining their specific national, regional, local and religious identities. As A. K. Sen argued, it is possible for an individual to maintain multiple identities at different levels of social existence (Sen 2006)³⁹. So, for example, it is possible to be simultaneously a Lahori, a Muslim (or any

other religious identity), a Punjabi, a Pakistani, a South Asian, and indeed a member of the global community.

The democratic consciousness of the people in the Pakistan area originates in the 7th century B.C. when monarchies first appeared in the Gangetic plain. At this time the more independent-minded Aryan settlers imbued with a sense of equality and participatory governance rejected the hierarchic monarchy structures and moved towards the Punjab plains and the wooded low-lying hills in northwestern India. Here they formed the first republics based on tribal coalitions (Thapar, 1966)⁴⁰. In more recent times the democratic consciousness of the people in this area was drawn from two main sources: first from the experience of the movement for independence during the Raj, and second from the shared cultural and spiritual experience of the four provinces, which is rooted in Sufism.

The movement for independence, particularly in its last phase during the 1940s when the formation of Pakistan specifically came on its agenda, was located in the democratic discourse and the rule of law. The argument presented to British authorities by Jinnah (a lawyer himself) was couched within the framework of law and drawn from the liberal democratic tradition of enlightenment Europe. The popular movement that Jinnah led outside the legal discourse with the British government, while it occasionally violated administrative law, was nevertheless calibrated to support Jinnah's constitutional and moral argument. The democratic dimension of the discourse for independence became part of mass consciousness as Jinnah addressed large public meetings during his legal and political dialogue with British authorities. It is not surprising, therefore, that when Pakistan was formed, in his first speech to the constituent assembly Jinnah formulated the democratic basis of the new state:

“You may belong to any religion or caste or creed ____ that has nothing to do with the business of the state..... We are starting with this fundamental principle that we are all citizens and equal citizens of one state.... Now, I think we should keep that in front of us as our ideal and you will find that in the course of time Hindus would cease to be Hindus and Muslims would cease to be Muslims, not in the religious sense, because that is the personal faith of each individual but in the political sense as citizens of the state.”⁴¹

This speech had a powerful resonance in the popular imagination. The sense of being citizens of the newly independent state of Pakistan was inseparable from the

consciousness of freedom, of being equal before the law and of being able to participate in the process of governance through democratic institutions. This consciousness of being citizens of a democratic state that guarantees citizens' freedom has persisted with undiminished strength in spite of recurrent periods of dictatorial rule. Indeed it is the persistence of this popular consciousness which explains the fact that even during periods of authoritarian rule, successive dictators have sought to create a democratic façade.

The consciousness of freedom, equality and fraternity is located at a deeper level in popular consciousness through the Sufi saints who introduced Islam to the poor peasantry and downtrodden sections of Indian society from the 11th century onwards. The Muslim Sufis carried the message of a universal spirituality, of love as a mode of experiencing the Divine, tolerance and human brotherhood. The message of the Sufis as it entered the consciousness of the people, became part of their folklore. This folklore in turn provided the images of lived experience to the philosophical and religious formulations of the Sufi saints (Najam Hussain, 1986)⁴².

The peasants of the Punjab and Sindh and the tribal communities of Balochistan and the Frontier province may be economically poor but they are inheritors of a rich cultural and philosophical tradition which is reflected in their forms of apprehending social life, their poetry and folklore. Through their forms of love and social action the poor people of Pakistan express their dreams and make their history (Hussain)⁴³. Four essential features of this consciousness can be articulated (Hussain, 2001)⁴⁴:

1. The *other* is not merely to be tolerated but constitutes the essential fertilizing force for the growth of the self. The *other* when brought into a dynamic counter-position to the self, helps to transcend the ego and thereby enlarge *self-hood*.

*You are the woof and you the warp
You are in every pore
Says Shah Hussain Faqir
Naugh am I, all is you*

[Shah Hussain⁴⁵, 17th century Sufi poet]

The journey to the *other* involves a transcendence of the elements of social life which reinforce the ego, such as aggression against others based on formal differences between religions.

*Demolish the mosque, demolish the mandir,
Demolish all that can be demolished,
Just do not injure the heart of man,
For that is the abode of God.*

[Bulleh Shah⁴⁶, 18th century Sufi poet]

2. In the folklore of South Asian societies, creative growth of the individual is based on a tension between the actual and the possible. The parental wisdom and fears are symbolized by the space that is bounded by the river and the desert. Hence, crossing them is seen as a means of self-fulfillment of the individual. Says Shah Hussain:

*I too must reach Ranjha.
Will you join me in this journey (across the river)?*

[Shah Hussain⁴⁷, 17th century Sufi poet]

3. Sufi poets and saints have also propounded the idea that growth involves successive transformation. There is a dialectic between the actual and the potential. The potential is experienced as a silent imperative of transformative love that is in continuous interplay with the impulse to adjust to the actual. The potential is thus a dynamic existential possibility of the individual and society. "The heart's desire articulates the possibility. When one possibility is actualized, a new possibility is born", [Sultan Bahu, 17th century Sufi poet].

Somewhere on the slopes of silence beat the drums of the unsaid

[Najam Hussain Syed⁴⁸, 21st century Sufi poet]

It is these psychic propensities rooted in the consciousness of the people (in Pakistan as much as in South Asia as a whole) that give to their sensibility a sense of human equality and tolerance within a pluralistic society. It is this sense of seeking unity in diversity, of relating with things outside the familiar realm, that gives South Asian consciousness its

creativity, dynamism and continuity. Such a consciousness when brought to bear can give depth and dynamism to the process of building a democratic polity and sustain constitutional rule.

CONCLUSION

In this chapter we have proposed that since institutional instability is the characteristic feature of the Pakistan case, therefore we need to analyze the nature of institutional instability. This is in contrast to much of the existing literature, which focuses on explaining institutional stability. Furthermore, we have suggested that in examining the dynamics of the political economy of a particular country the analysis must necessarily shift from individual institutions to *sets* of institutions.

We have postulated that the configuration of a particular set of institutions is determined within the underlying power structure. Further, it is the contention between various factions within the power structure that conditions the dynamic interrelationships between the set of institutions being considered.

Just as the structure of power influences institutions in the polity, it also conditions the institutions of the economy. We have argued in this chapter that in Pakistan, unstable GDP growth and endemic poverty are located in the structure of power at both the national and local levels. In this context we have examined some of the principal institutional constraints to equitable and sustainable growth. We have suggested that these constraints are located in a rent-based polity characterized by a patron-client model of governance.

Within the same perspective we have attempted an explanation of institutional instability in Pakistan with reference to the constitution. In this context we have analyzed the relationship between formal rules and informal norms to show that the stability of the constitutional order depends on the 'enforcement mechanism' that is located in the informal norms and the underlying core values of a society. We have examined the ongoing citizens' movement for constitutional order in Pakistan to show that a process may be underway whereby the informal norms and hence the enforcement mechanism of

the constitution could emerge. We have attempted to trace the emergence of democratic consciousness in the cultural and political history of the Pakistan area.

TABLE 1**LOAN DEPENDENCE ON THE LANDLORD AND LABOUR EXPLOITATION OF THE POOR PEASANTRY**

	Extremely Poor	Poor	Non-Poor	Total
Loan from landlord (%)	50.8	29.4	11.7	34.4
Work for landlord against wages (%)	14.0	24.3	5.1	16.9
Daily wages (Rupees)	28.0	43.6	60.0	40.0
Work for landlord without wages (%)	57.4	38.5	25.4	43.5

Source: NHDR/PIDE Survey 2001.

TABLE 2(a)**FREQUENCY OF DISPUTES, RESOLUTION AND COST OF RESOLUTION BY ECONOMIC STATUS (CASES REPORTING DISPUTES ONLY)**

ECONOMIC STATUS	DISTRIBUTION OF REPORTED DISPUTES (%)	AMOUNT SPENT ON MEDIATION (MEAN)	PERCENT OF REPORTED DISPUTES RESOLVED
Extremely Poor	17.1	Rs. 18,333	38.5%
Poor	48.7	Rs. 12,074	59.5%
Non Poor	34.2	Rs. 18,264	80.8%
Total/Average	100	Rs. 15,123	63.2%

Source: NHDR/PIDE Poor Communities Survey 2001.

TABLE 2(b)**TYPE OF DISPUTE BY ECONOMIC STATUS
(Dispute Reporting Cases only)
(%)**

ECONOMIC STATUS	LAND DISPUTE	WATER DISPUTE	MONEY/ CREDIT DISPUTE	HONOUR (IZZAT) DISPUTE	OTHER
Extremely Poor	21.4	-	22.2	17.6	13
Poor	42.9	-	61.2	47.1	47.8
Non Poor	35.7	100	16.7	35.3	39.1
Total	100	100	100	100	100

Source: NHDR/PIDE Survey 2001.

Notes

- ¹ 1 (a) Paul A. Samuelson, Classical and Neo-Classical Theory. In Robert W. Clower, (ed), Monetary Theory, London, Penguin 1969.
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JAISAY HALKAY SE CHALE BAAD – E – NASIM...
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Ruum Ruum vich Tuun
Kahey Hussain Faqir Saain Da
Maen Nahi Sub Tuun
- 46 Dhaa de mandir, dhaa de masjid,
Dhaa de jo kujj dhaenda
Ik bandian da dil na dhaveen,
Rabb dilaan vich rhenda.
- 47 Mein vee janaan jhok Ranjhan di,
Nal mere koi challe
- 48 Kitte chupp dhalian utte,
Dhol meraindi ae un aakhi

CHAPTER 2

THE DYNAMICS OF POWER, INSTITUTIONS AND GROWTH¹ 1960 to 1999

By

Akmal Hussain

INTRODUCTION

In this chapter we examine the dynamics of conflict within the power structure and its relationship with the process of institutional decay, constrained growth and persistent mass poverty in the post-independence period. The power dynamics and associated institutional instability are associated with distinct forms of rents in each of the governments in this period. We begin however with a historical perspective from the decline of the Mughal elite in the late 18th century up to Independence in 1947. The purpose is to trace the origins of the contemporary power structure and the associated rent-based form of economy and governance to provide insight into the nature of what North calls path dependence (North, 2005)².

The analysis in this paper focuses on the pattern of growth, forms of rent and poverty creation in the context of the political dynamics and economic policy of various governments in the period from 1958 to 1999. Integral to the analysis of the political dynamics and emerging economic structure is the perennial constitutional crisis. As Leftwich points out, the absence of agreed rules of the game lead to a “lack of both coherent and consistent policy”, and thereby to a “slow...developmental momentum” (Leftwich, 2006)³. This chapter examines the Leftwich proposition systematically for the case of Pakistan.

I. THE ORIGINS OF PAKISTAN'S POWER STRUCTURE AND RENT-BASED FORM OF ECONOMY AND GOVERNANCE

North has argued that institutions which have emerged historically, give “rise to organizations whose survival depends on the perpetuation of those institutions” (North, 2005)⁴. Consequently, such organizations attempt to maintain the status quo by investing financial resources, time and energy to prevent an institutional change that would threaten their survival. North concludes, therefore, that “understanding the process of change entails confronting directly the nature of path dependence in order to determine the nature of the limits to change that it imposes in various settings” (North, 2005)⁵. The persistence of institutional structures that engender rent-based organizations in both governance and economy in Pakistan can, therefore, be better understood in historical perspective.

At the time of independence Pakistan inherited from the colonial state a power structure consisting of the military, bureaucracy and the landed elite, with the military being in a dominant position. Hamza Alavi has argued that given the antecedent colonial state, in post-independence Pakistan, the military and bureaucracy were relatively overdeveloped compared to the organizations of civil society, resulting in the “relative autonomy” of the state with respect to civil society (Hamza Alavi, 1983)⁶. In this section we will indicate how the structures of power, governance and the economy observable at the time of independence were shaped by political and social processes at the end of the Mughal period and the emergence of British rule in the Pakistan area.

Imran Ali suggests that the cycles of successful resistance against the emerging forces of the market economy have prevented the dissolution of the old order. What he calls “counter revolutions” to maintain the old institutional and power structures, can be traced to the 18th century agrarian revolts, the emergence of the hydraulic society in the 19th century colonial period, the communal solution of independence in the mid-20th century and the nationalization in the 1970s during the Z.A. Bhutto government (Ali, 2003)⁷. In this process of path dependence there has been no qualitative break from the past in the institutions of the economy and governance in Pakistan, and

have led instead to the retention of traditional rent-based structures of polity and economy.

In the Punjab province during the decline of the Mughal empire after the mid-18th century, the traditional Mughal aristocracy (unlike the rest of India), was overthrown by a series of peasant uprisings. These agrarian revolts not only took over large swathes of Mughal territory in the rural areas but also targeted some of the urban centers where the Mughal royalty displayed the wealth extracted from the peasants (Ali, 2003)⁸. Imran Ali suggests that the peasant revolts may have been caused by economic pressures from the excessive revenue demands of a parasitic military-administrative structure of the Mughal elite which were engaging in unsustainable levels of conspicuous consumption. This was a lesson “not lost on the British but which the military-bureaucratic-landed elite of the fragile Pakistani state has not yet fully grasped” (Ali, 2003)⁹.

Mughal rule in the Punjab was replaced in the late 18th century by the upper strata of the peasantry. The leaders of the peasant revolts began to establish localized power within a fragmented state, and gradually emerged as a new agrarian elite. Evidence of the displacement of the old Mughal elite has been gleaned by Imran Ali from British documents of the period such as the District Gazetteers and Griffin and Massy’s tome, *Chiefs and families of note in the Punjab*. Most of the families identified as having ‘elite status’ originated in the late 18th century (Ali, 2003)¹⁰. There were very few families with ‘elite status’ which had antecedents before the late 18th century¹¹.

With the coming of the British, the exigencies of establishing order in the Raj required a convivial relationship with the new agrarian elite. Accordingly, the British government consolidated the position of the new peasant lineages through revenue settlements, which formalized the proprietorship of the new *zamindars* over land. This political alliance was further cemented when the new landed elite assisted the British during the armed struggle of 1857-58, which in the colonial lexicon is referred to as the ‘mutiny’.

By the late 19th century the bonding of the British Raj with the new agrarian hierarchy was further reinforced as the upper Indus basin was converted into a logistical base for the 'great game' strategy against the Russian empire in Central Asia. This region became the main recruiting area for the British Indian army. The military recruitment took place almost exclusively from the new landed elite, many of whose young scions became mid-level officers in the British Indian army.

In the early 20th century a series of legislative measures starting with the Alienation of Lands Act provided further protection to the position of agricultural owners from the threats to mortgaged land resulting from debt default by the consumption oriented new landlords.

A resource gratification for the new agrarian elite that was unprecedented in Indian history was the development by the British government of the canal irrigation system and the associated process of agricultural colonization in the late 19th century. The construction of river-spanning weirs and networks of perennial canals enabled large areas that were hitherto arid or semi-arid waste to be brought under cultivation. These areas were appropriated by the government as Crown Waste, to be utilized or disposed of at administrative or political discretion. Land holdings of between 100 to 500 acres were granted to existing members of the landed elite who were loyal to the Raj. Some particularly favoured individuals got much larger holdings.

Two organizations of the state that were strengthened more than any other through the new institutional arrangements of the canal economy, were the military and bureaucracy. Apart from land grants to war veterans, sections of the military were involved in the rural economy through the granting of land for the breeding of military animals. For example, every cavalry regiment was granted 1500 acres for breeding its own horses and some were given as much as 10,000 acres¹². Through these measures the military was given control over a significant proportion of state resources. These economic and social processes led to the emergence of a nexus between the landed elite, military service and state power (Ali, 1988)¹³. These processes also established the institutional structure for a rent based form of governance and economy. These

structures of power and governance that emerged during the British Raj have persisted in Pakistan after independence. As the ensuing analysis shows, the state organizations and social classes whose economic welfare depended on the rent-based institutional structure have made every effort for its perpetuation. In the post-independence period while the nature of the rent-based social order persisted, the *forms* of rent varied with each type of government.

II. FORMS OF RENT IN THE POST-INDEPENDENCE PERIOD

Particular forms of rents have characterized the policy and power framework of each of the governments in the post-independence period.

II.1 Rents in the period 1947-57

In the first decade after independence, the principal form of rent was the grant of ‘evacuee’ property by the government to selected migrants from India. A large proportion of fixed assets (land, buildings, shops, factories) in urban as well as rural areas of the new state were owned by Hindu or Sikh citizens of undivided India. These properties were abandoned when their owners fled to India with the outbreak of large scale communal rioting at the time of partition. The abandoned properties were taken over by the government and then distributed to selected Muslim claimants either as compensation for property presumed to have been abandoned in India (in the case of migrants) or as ‘disputed’ property (in the case of locals). In this way substantial properties in commercial as well as residential localities in the urban areas and cultivated lands in the rural areas were acquired by individuals who had privileged access over the government. The unilateral grant by the state to selected citizens of huge properties was possibly the largest resource gratification since the land grants associated with the establishment of the new irrigation system during the Raj.

II.2 Rents in the Ayub Period (1958-68)

During the Ayub period (1958-68) the main forms of rent emerged from the regulatory economic policy framework. It consisted of rent transfers to a small

industrial and commercial elite in the form of direct and indirect subsidies, protectionist import controls, cheap imported machinery and raw materials through an overvalued exchange rate, and low interest loans to favoured entrepreneurs who were granted licenses to establish commercial and industrial enterprises (see Section III.3).

II.3 Rents in the Z.A. Bhutto Period (1973-77)

During the Z.A. Bhutto period (1973-77) the ability of the state for rent transfer was considerably enhanced with the policy of nationalization of a wide range of industries and commercial enterprises. The nationalized banks, insurance companies and industries provided a large resource base to politicians of the ruling government to establish political power through resource gratification to loyalists. This consisted of lucrative appointments in the nationalized sector, government contracts and bank loans. Another form of rent granted to political supporters occurred through the new system of “lateral entry,” whereby favoured individuals could be granted direct entry at various levels into the elite Civil Service of Pakistan.

A substantial basis of rent generation for transfer to middle class loyalists came through the establishment of the Federal Security Force and the Federal Investigation Agency, as well as state-run foundations such as the Overseas Pakistanis Foundation.

Perhaps the largest source of rent transfer to a broad range of upper, middle, lower-middle and working classes was conducted through the state-sponsored “export of manpower” to the Middle East. Rents were generated in the form of the profits of state-sponsored manpower export companies and the differential between the remuneration of Pakistani workers in the Middle East compared to the opportunity cost of their labour within Pakistan. Those whom the government through state organizations and state-sponsored contractors sent for employment in the Gulf countries could earn a multiple of the salary that they would earn domestically for equivalent employment. Thus, a privileged stratum of each social class emerged. These relatively affluent Pakistanis

began sending remittances to their families amounting to almost US \$ 5 billion annually during the period.

II.4 Rents in the Zia Period (1977-88)

During the Zia ul Haq period a new form of rent generation emerged with the multi-billion dollar economic and military aid as General Zia positioned Pakistan for a front line role in the U.S.-sponsored Afghan Jihad against Soviet troops in Afghanistan. While the Pakistani government played its role as a conduit for funds and weapons to support the war, a significant proportion of these funds and proceeds from the sale of some of the weapons in the arms bazaar enriched individuals favoured by the government.

II.5 Rents in the 1990s

During the governments of Prime Ministers Benazir Bhutto and Nawaz Sharif respectively, in the 1990s, the principal form of rent was allegedly siphoning off large funds from public sector banks, insurance companies and investment institutions such as the National Investment Trust (NIT) and the Investment Corporation of Pakistan (ICP). The evidence was found in the nonperforming loans which the state-controlled financial institutions were allegedly made to give to friends of the government, in most cases without collateral. (See Section VI.2).

II.6 Rents in the Period 1999-2007

During the period when General Musharraf was President and Mr. Shaukat Aziz was Prime Minister it was alleged that the stock market was manipulated to accentuate the amplitude of fluctuations in stock prices. Those who were conducting this manipulation would buy stocks for themselves and their friends at low prices and sell when prices had peaked.

III. THE AYUB PERIOD: POWER, ECONOMIC STRUCTURE, UNEQUAL GROWTH AND POVERTY: 1958-69

In this section we will briefly examine the political and economic policies of the Ayub government. These policies resulted in the erosion of Pakistan's

nascent democratic institutions and created explosive regional and class tensions by marginalizing the majority of the population from the process of both governance and growth. We will indicate how an economic structure with its associated forms of rent emerged in this period that was to lock Pakistan's economy into a narrow and inefficient industrial base, unstable growth and endemic poverty.

III.1 Ayub's Coup d'etat and the Constitutional Crisis

The Constituent Assembly in 1954 made the first attempt to give a constitution to the nation. The failure of this attempt signifies the conflict between the greed for personal power of individual leaders and the imperatives of strengthening institutions - a conflict of interest that was to underlie the process of institutional decay in the next five decades. Allen McGrath records that on October 28, 1954, the Constituent Assembly was scheduled to formally vote on the published draft of Pakistan's first constitution, a draft that had been approved in the previous session of the Constituent Assembly. On this fateful day, Governor General Ghulam Mohammad, who felt that the draft constitution did not suit his power interests, ordered the police to bar members of the Constituent Assembly from entering their meeting room in Karachi. (McGrath, 1996)¹⁴. The passage of the first constitution thus aborted, a weakened form of parliamentary democracy was restructured from the remnants of the first Constituent Assembly until it was terminated by Ayub Khan's coup d'etat in 1958.

The significance of this conflict between individuals and institutions was to resonate through Pakistan's subsequent history. It was summed up in a prescient remark by Lawrence Ziring: "Once the first constitution is destroyed, it is doubtful that any succeeding one, no matter how successfully drafted will ever be truly accepted. A tradition which makes it possible for new leaders to replace old documents with others which appear preferable to them not only denies constitutionalism but makes reference to it little more than a sham". (Ziring, 1980)¹⁵.

III.2 Dictatorship, Institutional Decay and Popular Revolt

The fatal flaw of Ayub Khan's political system was that while its support was drawn from a relatively narrow social stratum through state patronage, it did not have an institutional mechanism for accommodating opposition. Power was concentrated in the hands of Ayub Khan who relied on the bureaucracy for running both economic *and* political affairs. The central and provisional legislatures were severely constrained by the narrow scope for parliamentary legislation. The President could also veto any legislation without the legislatures having the power to "over-ride" his veto (Burki, 2004)¹⁶.

The system of "Basic Democracy" consisted of elected union councilors (called "basic democrats") from 80,000 constituencies who formed a safe electoral college for electing the President, and were provided access over state resources. The candidates for election to the position of "basic democrats" (B.Ds.) were selected by the bureaucracy, which also disbursed state resources to elected B.Ds. for a variety of social and economic functions at the local level. Thus "basic democrats" provided the bureaucracy an institutional mechanism for a patron-client relationship with sections of the rural elite.

While the legislatures were subject to presidential veto, dissent from individuals and institutions in civil society was suppressed by a series of administrative measures. For example in April 1959 a Martial Law Ordinance was promulgated under which the government could take over any newspaper which in the "opinion of the government" contained material that threatened national security¹⁷. Subsequently, control over the press was institutionalized through the establishment of an official body called the National Press Trust. Individuals in academia were prevented from publishing or even verbally expressing dissenting opinions in public. The judiciary, which was the last remaining state organization that could provide a check over governmental authority, was also brought under administrative control. This was done by means of the "Law Reforms," which gave the government control over judicial appointments, and subjected judges to political scrutiny.

In a culturally diverse society when the people of Bengal, Sindh and Baluchistan were not significantly represented within state institutions, and when political and cultural expression was suppressed, the tendency for the assertion of linguistic or ethnic identities was intensified. This was reinforced by the growing regional economic inequalities so that by the late 1960s political pressures on the state began to explode; in East Pakistan it was in the form of the assertion of Bengali nationalism and in West Pakistan in the form of mass street demonstrations against Ayub Khan's repressive rule and the industrial and feudal elite that benefited from it.

III.3. Economic Growth, Social Polarization and the Roots of the Financial Crisis

Following the Korean boom in 1953, the government introduced a policy framework for inducing the large profits of traders in the jute and raw cotton sector to flow into the manufacturing sector. This was done through a highly regulated policy framework for import substitution industrialization in the consumer goods sector. The policy combined an overvalued exchange rate, with tariff protection for manufacturers of consumer goods together with direct import controls on competing imports. It has been estimated that the average rate of effective protection was as high as 271% in 1963-64, and fell to 125% in 1968-69 (Burki, 2004)¹⁸. This enabled the emerging industrial elite to make large profits from the domestic market without competitive pressure to achieve higher levels of efficiency and export capability.

During the 1960s, import substitution industrial growth in the consumer goods sector was more systematically encouraged by the government. Apart from other incentives the most important was the Bonus Voucher Scheme¹⁹. This policy essentially constituted a mechanism for enabling domestic manufacturers to earn large rupee profits on exports, which brought no gain to the economy in terms of foreign exchange. It has been estimated that during the 1960s, Pakistan's main industries (when input costs and output values are both measured in dollar terms) were producing negative value added (Soligo and Stern, 1965)²⁰.

The phenomenon of negative value added in industry was an important reason why during the 1960s, in spite of import substitution and large export volumes, foreign exchange shortages persisted. This set the “mould” for Pakistan’s narrow export base (concentration on the low value-added end of textiles) and the balance of payments problem that remains until today (Rahim, 2001)²¹.

In a broader perspective, it can be argued that the government through a range of protection measures and concessions in the 1960s, enabled the emerging industrial elite to make large rupee profits from domestic and export sales, without the market pressures to diversify into high value-added industries or to achieve international competitiveness. Thus, the experience of the 1960s is illustrative of the nature of both the patron-client governance model and the rent-seeking economic elite. In the pursuit of securing its power base, the government by means of subsidies, manipulation of tariffs and the exchange rate mechanism, transferred rents to the industrial elite. This reinforced the tradition bound propensity of the economic elite for risk aversion, lack of innovative dynamism and dependence on governmental patronage.

These tendencies persisted in varying degrees for the next four decades. Yet they were at an economic cost that became a growing burden on an increasingly fragile economy.

The government during the 1960s adopted a deliberate policy of concentrating national income in the hands of the upper income groups. The economic basis of this policy was the assumption that the rich save a larger proportion of their income and hence a higher national savings rate could be achieved with an unequal distribution of income (the target savings rate being 25% of GDP). In practice, while the policy of distributing incomes in favour of the economic elite succeeded, the assumption that it would raise domestic savings over time failed to materialize. For example, 15% of the resources annually generated in the rural sector were transferred to urban industrialists and 63 to 85 percent of these transferred resources went into increased urban consumption. Far from

raising the domestic savings rate to 25%, the actual savings rate never rose above 12% (Griffin, 1972)²².

The failure of the economic elite to save out of their increased income resulted during the 1960s in a sharp increase in the requirement of foreign aid. According to official figures, gross foreign aid inflows increased from US\$ 373 million in 1950-55 to US\$ 2,701 million in 1965-70. The rapid increase in foreign aid was accompanied by a change in its composition from grants to higher interest loans²³. Consequently, the debt servicing burden rose dramatically. Debt servicing as a percentage of foreign exchange earnings was 4.2% in 1960-61 and increased to 34.5% by 1971-72. The magnitude of this figure did not fall for the next three decades, and by the year 2000, it was even higher at 40%²⁴.

Given the policy of redistributing incomes in favour of the rich, it is not surprising that by the end of the 1960s a small group of families with interlocking directorates dominated industry, banking and insurance in Pakistan. In terms of value added, 46% of the value added in the large scale manufacturing sector originated in firms controlled by only 43 families (White, 1974 and Amjad, 1982)²⁵.

During the process of rapid economic growth of the 1960s, while an exclusive and highly monopolistic class was amassing wealth, the majority of Pakistan's population was suffering an absolute decline in its living standards. For example, the per capita consumption of food grain of the poorest 60 percent of Pakistan's urban population declined from an index of 100 in 1963-64 to 96.1 in 1969-70. The decline was even greater over the same period in the case of the poorest 60 percent of the rural population. In their case, per capita consumption of foodgrain declined from an index of 100 in 1963-64 to only 91 in 1969-70 (Hamid, 1974)²⁶. There was an even larger decline in the real wages in industry. For example, in the decade and a half ending in 1967, real wages in industry declined by 25 percent (Griffin and Khan)²⁷. In 1971-72, poverty in the rural sector was so acute that 82 percent of rural households

could not afford to provide even 2,100 calories per day per family member (Naseem, 1977)²⁸.

In an economy where there were significant differences in the infrastructure facilities available in the different provinces, there was a tendency for investment based on private profitability to be concentrated in the relatively developed regions. Consequently, regional disparities would tend to widen over time. This is in fact what happened in the case of Pakistan. The Punjab and Sindh provinces, which had relatively more developed infrastructure, attracted a larger proportion of industrial investment than the other provinces. In Sindh, however, the growth in income was mainly in Karachi and Hyderabad. Thus, economic disparities widened not only between East and West Pakistan, but also between the provinces within West Pakistan.

During the 1960s, the factor which accelerated the growth of regional income disparities within what is Pakistan today was the differential impact of agricultural growth associated with the so-called 'Green Revolution'. The yield increase associated with the adoption of high yield varieties of food grain required irrigation, and as it happened, the Punjab and Sindh had a relatively larger proportion of their area under irrigation. Therefore, they experienced much faster growth in their incomes compared to Baluchistan and the North West Frontier Province (Hamid and Hussain, 1974)²⁹.

In a situation where each of the provinces of Pakistan had a distinct culture and language, the systematic growth of regional economic disparities created acute political tensions. This required a genuinely federal democratic structure with decentralization of political power at the provincial level. Only such a polity and large federal expenditures for the development of the under-developed regions could ensure the unity of the country. In the absence of such a polity, the growing economic disparities between provinces created explosive political tensions.

The failure to conduct effective land reform in Pakistan had resulted in a continued concentration of land ownership in the hands of a few big landlords. Thus, in 1972, 30 percent of total farm area was owned by large landowners

(owning 150 acres and above). The overall picture of Pakistan's agrarian structure has been that these large landowners have rented out most of their land to small and medium-sized tenants (i.e., tenants operating below twenty-five acres).

Given this agrarian structure, when the 'Green Revolution' technology became available in the late 1960s the larger landowners found it profitable to reclaim some of their rented out land for self-cultivation on large farms, using hired labour and capital investment. Consequently, there was a growing economic polarization of rural society. While the landlords' incomes increased, those of the poor peasantry declined relatively, as they faced a reduction in their operated farm area and in many cases growing landlessness. (During the period 1960 to 1978 my estimates show that as many as 0.8 million tenants became landless wage labourers) (Hussain, 1988)³⁰.

Thus, the "commercialization of agriculture" in a situation where landlords and the local power structure controlled markets for inputs and outputs, brought new mechanisms for the reproduction of rural poverty, even though overall agricultural growth accelerated. The high rate of agricultural growth of the Ayub period could not be sustained in subsequent years. Yet the mechanisms of reproducing rural poverty that had emerged in this period persisted over the next four decades.

IV. THE BHUTTO PERIOD: 1973-77

IV.1 Power and Patronage

The Ayub government had instituted policies that resulted in a concentration of incomes in the hands of a nascent industrial elite while real wages declined and poverty increased. In the resultant social tensions, Z.A. Bhutto emerged as a champion of the poor to lead a mass movement for overthrowing the Ayub government. Support for the newly formed Pakistan People's Party (PPP) led by Bhutto came not only from workers and peasants but also from elements of the urban middle classes seeking reform. Conservative landlords also gravitated to the PPP because of their antagonism to an industrial elite that was appropriating a growing share of economic resources.

The radical stratum of the middle class was dominant in the Pakistan People's Party until 1972. This was evident from the party's manifesto, which was anti-feudal and against monopoly capitalists. The same stratum played a key role in devising a propaganda campaign that aimed to present the manifesto as "revolutionary", thereby mobilizing the support of the workers and peasants. The radical stratum was drawn from diverse social origins and its members therefore related with the party leader as separate factions. The inability of these different radical factions to constitute themselves into a united bloc within the PPP facilitated the purges that came later. By 1972 the balance of social forces within the PPP began to shift in favour of the landlord groups. This shift was rooted in the imperatives of mobilizing popular forces on the one hand and the practice of politics within the traditional power structure on the other. In the pre-election period, the dominance of the urban middle class and its radical rhetoric was necessary if the PPP was to get a mass base for its election victory. After the election, the proclivity of the top party leadership to contain demands for radical change within the existing power structure combined with the dominance of the landed elite within the party, led to a purge of radical elements from the PPP. Consequently, there was an institutional rupture between the PPP and its mass base amongst the workers and peasants. This set the stage for economic measures that were socialist in *form*, while actually serving to strengthen the landed elite and widening the base for state patronage.

One of the most important initiatives of the PPP government was the nationalization in 1972 of 43 large industrial units in the capital and intermediate goods sectors such as cement, fertilizers, oil refining, engineering and chemicals. Just three years later the government nationalized the cooking oil industry and then flour milling, cotton ginning and rice husking mills.

While the first set of nationalizations impacted the "monopoly capitalists", the second set of nationalizations in 1976 by contrast hit the medium and small-sized entrepreneurs. Therefore, nationalization in this period cannot be seen in terms of state intervention for greater equity. Rather the rapid increase in the size of the public sector served to widen the resource base of the government

for the practice of the traditional form of power through state patronage. This involved the state intervening to redistribute resources arbitrarily to those who had access to its patronage (Noman, 1988)³¹.

IV.2 Investment, Growth and the Budget Deficit

Let us now briefly indicate the implications of the economic measures in this period on investment, growth and the budget deficit. Private investment as a percentage of GDP in the Bhutto period (1973/74 to 1977/78) declined sharply to 4.8% compared to 8.2% in the preceding period 1960/61 to 1972/73 (see Table 1). The nationalization of heavy industries shook the confidence of the private sector and was a factor in the declining investment. The trend may have been reinforced by a second set of measures during this period. These included a devaluation of the exchange rate, which placed large and small scale industry at par with respect to the rupee cost of imported inputs (i.e., the indirect subsidy provided to large scale manufacturing industry through an overvalued exchange rate was withdrawn). At the same time, direct subsidies to manufacturing were significantly cut down, import duties on finished goods were reduced and anti-monopoly measures along with price controls were instituted. It is not surprising that domestic manufacturers who had been bred on government support, responded by further reducing investment (Kemal 1999)³².

The decline in private sector investment in the post-1965 period as a whole (as opposed to its sharp deceleration during the nationalization phase), can be attributed (Kemal, 1999)³³ to three underlying factors: (i) foreign capital inflows fell sharply after the 1965 war; (ii) the manufacturing sector in a situation of declining domestic demand was unable to meet the challenge of exports due to high production costs in traditional industries; and (iii) entrepreneurs did not diversify into nontraditional industries where there was considerable growth potential. Thus, the declining trend in private sector manufacturing investment in the post-1965 period, a trend that persisted right into the 1990s, can be said to be rooted in certain sociological features that characterized most of Pakistan's entrepreneurial elite: (a) its reliance on

foreign savings rather than its own thrift; (b) its dependence on state patronage and subsidies of various kinds; and (c) its tradition-bound nature, risk avoidance and in many cases lack of innovativeness for breaking new ground.

Due to large public sector investments the overall investment/GDP ratio during the Bhutto period reached 15.5%, which was slightly higher than in the preceding period (see Table 1). Yet in spite of an increase in the total investment/GDP ratio, the growth rate of GDP declined compared to the preceding period (as Table 2 shows, GDP growth during the Bhutto period was about 5% compared to 6.3% in the earlier 1960-73 period). This is indicative of a decline in the productivity of investment (i.e., an increase in the incremental capital output ratio). The question is, what caused the decline in the capacity of investment to generate growth³⁴? The lowering of GDP growth in spite of an increase in investment in the Bhutto period occurred because of two sets of factors: (a) concentration of public sector investment in the economically unproductive sectors of defence and administration; and (b) economically inefficient investment decisions in the public sector industries based on political considerations, with respect to technology choice, geographic location, and production management.

Let us now briefly discuss the implications of the political and economic measures of the government during this period for the budget.

The problem of the government's dependence on financial borrowing as we have indicated, started in the Ayub period, when the obligation of maintaining a large military and bureaucratic apparatus combined with the imperatives of providing huge subsidies to both agriculture and industry: for agriculture in the form of subsidized inputs (water, fertilizer, pesticides) as part of the elite farmer strategy; for industry in terms of explicit and implicit subsidies, such as an overvalued exchange rate, and subsidized credit and tax incentives to an industrial sector that was inefficient and lacked export competitiveness.

In the Z.A. Bhutto period, budget deficits widened further as expenditures on defence and administration increased sharply. Higher defence expenditures were part of the policy of refurbishing the defence establishment (Noman,

1988)³⁵. Large expenditures on government administration arose mainly out of the decision to build new paramilitary institutions such as the Federal Security Force (Hussain, 1988)³⁶. The bureaucracy was also enlarged and restructured through the policy of 'lateral entry,' which enabled loyalists outside the civil services cadre to be appointed at the upper and middle echelons. The attempt to build a demesne of patronage within the state apparatus had huge financial consequences. For example, defence expenditure as a percentage of GDP increased from 2.7% in 1965 to 6.7% in 1974-75. Similarly general administration as a percentage of GDP increased from 1.1% in 1964-65 to as much as 1.8% in 1974-75³⁷.

As government expenditures increased, the ability to finance them from tax revenue was constrained by two factors: (a) the slowdown in GDP growth; and (b) the government's inability to improve the coverage of direct taxation. As a consequence, the deficit increased rapidly. The government attempted to control the rising budget deficit by reducing subsidies on consumption goods and increasing indirect taxation. However, even these measures failed to reduce the budget deficit in the face of rising current expenditures. So monetary expansion was resorted to, resulting in accelerated inflation.

The financial constraints following the large non-development expenditures, severely restricted the funds available for development and hence enfeebled the two initiatives that were designed to benefit the poor: the National Development Volunteer Programme (NDVP) and the Peoples Work Programme. The former aimed at providing employment to the educated unemployed and the latter to generate employment for the rural poor through labour intensive projects. Both programmes were marginalized due to budgetary constraints (Noman, 1988)³⁸.

The social consequences of these financial measures were to have a profound impact on the political strength of the Bhutto government. Withdrawal of subsidies on consumption goods together with higher inflation rates squeezed the real income of the middle and lower middle classes. This served to accentuate the resentment that had followed the nationalization of the small and medium-sized food processing units in 1976. Ironically, these very urban

petit bourgeois elements had in 1968-69 fuelled the anti-Ayub agitation that had catapulted Bhutto into power. They now joined the street demonstrations in 1977 that led to his downfall.

V. THE ZIA PERIOD (1977-1989)

V.1 The Rise of Islamic Fundamentalism

Each government that came into power sought to legitimize itself through an explicit ideology. The Ayub government propounded the philosophy of modernization and economic development. Prime Minister Z.A. Bhutto donned the mantle of redeeming the poor through socialism. Zia ul Haq, having come into power through a coup d'état, sought to institutionalize military rule through the garb of a coercive and obscurantist version of Islamic ideology.

In the absence of popular legitimacy, the Zia government used state terror as a conscious policy of the government (Noman, 1988)³⁹. In the pursuit of this policy, the democratic constitution of 1973 was set aside and draconian measures of military courts, arbitrary arrests, amputation of hands and public lashing were introduced. Pakistan's society, by and large, was historically characterized by cultural diversity, democratic aspirations and a religious perspective rooted in tolerance and humanism. This was one of the reasons why the founding father, Quaid-e-Azam Muhammad Ali Jinnah conceived of Pakistan's polity as democratic and pluralistic with religious belief to be a matter concerning the individual rather than the state (Munir, 1979)⁴⁰.

In attempting to restructure such a state and society into a theocracy, the government undertook two kinds of initiatives. First, measures were designed to subordinate to executive authority organizations of the state and civil society, such as the judiciary and the press, which if allowed to function independently could check governmental power. In the case of the judiciary, its essential powers to scrutinize the legality of martial law or the orders of military courts were abolished. The judicial protection against arbitrary detention of a citizen embodied in the right to Habeas Corpus was eliminated for the first time in Pakistan.

In the case of the press, an attempt was made to subordinate it to state authority (Noman, 1988)⁴¹. In the pursuit of this policy, press control measures were introduced. The government constituted committees at the district level to ensure that articles repugnant to the ideology of Pakistan were not published. Those members of the press who had refused to acquiesce faced state repression. A number of newspapers were banned and journalists were arrested and given flogging sentences by military courts.

The second set of measures towards a theocratic state sought to inculcate obscurantist views and induced a narrowing of the human mind. It involved a suspension of the sensibility of love and reason underlying the religious tradition signified in Pakistan's folk culture (Hussain, 1986)⁴².

Advocacy for a theocratic social order (Noman, 1988)⁴³ was conducted through the state-controlled television and press (Noman, 1988)⁴⁴. Individual and group behaviour and society were sought to be controlled through the enforcement of coercive measures such as the amputation of wrists and ankles for theft, stoning to death for adultery and 80 lashes for drinking alcohol. Apart from this, in 1984 a law was passed to officially give women an inferior status compared to men (Noman, 1988).⁴⁵ In August 1984, the government began a national campaign involving the direct physical intervention of the state into the personal lives of individuals. For example, the Nizam-e-Salat Campaign was launched through the appointment of 100,000 "Prayer Wardens" for rural and urban localities. The task of these state functionaries was to monitor religious activities of individuals and to seek their compliance in religious practices.

The institutional roots of "Islamic Fundamentalism" were laid when government funds were provided for establishing mosque schools (madrassas) in small towns and rural areas, which led to the rapid growth of militant religious organisations. This social process, which later came to be known as "Islamic Fundamentalism," was catalyzed by the Afghan war. As measures were undertaken to start building a theocratic state, and society was brutalized, the isolation of the government from the people as a whole was matched by increased external dependence. Political, economic and military support was

sought from the U.S. by offering to play the role of a frontline state in the Afghan guerilla war against the occupying Soviet army. Accordingly, Pakistan obtained a package of U.S. \$ 3.2 billion in financial loans and relatively sophisticated military hardware. Moreover, with the support from the U.S., Pakistan was able to get additional fiscal space by getting its foreign debt rescheduled, and increased private foreign capital inflows. These official and private capital inflows played an important role in stimulating macroeconomic growth in this period. They also helped establish a political constituency both within the institutions of the state and in the conservative urban petit bourgeoisie for a theocratic form of military dictatorship.

As the government under President Zia ul Haq engaged in a proxy war, some of the militant religious groups together with their associated madrassas were provided with official funds, training and weapons to conduct guerilla operations in Afghanistan. While they helped fight the war in Afghanistan, the religious militant groups were able to enlarge the political space within Pakistan's society as well as in its intelligence and security apparatus. Since the late 1970s with the steady inflow of Afghan refugees into Pakistan and its use as a conduit for arms for the Afghan war, two trends emerged to fuel the crisis of civil society: (a) A large proportion of the weapons meant for the Afghan guerillas filtered into the illegal arms market in Pakistan; (b) There was a rapid growth of the heroin trade⁴⁶. The large illegal arms market and the burgeoning heroin trade injected both weapons and syndicate organisations into the social life of major urban centers. At the same time the frequent terrorist bombings in the Frontier province together with a weakening of state authority in parts of rural Sindh, undermined the confidence of the citizens in the ability of the state to provide security of life and property. Increasing numbers of the underprivileged sections of society began to seek security in various proximate identities, whether ethnic, sectarian, biraderi or linguistic groups (Hussain, 1988)⁴⁷.

From 1987 onwards sectarian violence mushroomed in the Punjab province (which until then had been relatively peaceful) and later spread across the country. The phenomenon of large scale sectarian violence conducted by well

armed and trained cadres was closely associated with the rapid growth of deeni madrassas (“religious” schools). While historically, such schools merely imparted religious knowledge, in the late 1980s a new kind of deeni madrassa emerged, which engaged in systematic indoctrination in a narrow sectarian identity, and inculcated hatred and violence against other sects. In 1998 there were 3,393 deeni madrassas in the Punjab alone and 67% had emerged during the period of the Zia government and after. The number of Pakistani students in these madrassas was 306,500 in the Punjab. Between 1979 and 1994, many of the madrassas were receiving financial grants from Zakat funds. According to an official report of the police department, a number of madrassas were merely providing religious education. Yet as many as 42% of them were actively promoting sectarian violence through a well- conceived indoctrination process (Khan, 1995)⁴⁸. The students, predominantly from poor families, were given free food and lodging during their term at the madrassas. As poverty increased in the 1990s, the burgeoning madrassas provided a growing number of unemployed and impoverished youths with the security of food, shelter and an emotionally charged identity: a personality that felt fulfilled through violence against the other.

As the new kind of sectarian madrassas emerged and grew during the Zia period, so did sectarian violence. The number of sectarian killings increased from 22 during the 1987-89 period, to 166 during the 1993-95 period (see Table 12). Thus, violence against the other became both the expression and the emblem of the narrowed identity.

The mobilization of these narrow identities involved a psychic disconnection from the wellsprings of universal human brotherhood within the Islamic tradition. Its liberating elements of rationality and love were replaced in the narrowed psyche by obscurantism and hatred. Violence against the “other” became an emblem of membership within these identities. Thus, civil society divorced from its universal human values began to lose its cohesion and stability.

V.2. Economic Growth and the Prelude to Recession

The rapidly growing debt servicing burden together with the slowdown of GDP growth and government revenues that had occurred at the end of the Bhutto period would have placed crippling fiscal and political pressures on the Zia government, but for two factors: (a) the generous financial support received from the West; and (b) the acceleration in the inflow of remittances from the Middle East, which increased from US\$ 0.5 billion in 1978 to US\$ 3.2 billion in 1984. These remittances not only eased balance of payments pressures, but also potential political pressures, as they directly benefitted about 10 million people, predominantly in the lower middle class and working class strata (Jillani et.al.)⁴⁹

As it was, the easing of budgetary pressures together with good harvests and the construction and consumption booms associated with Middle East remittances, helped stimulate economic growth. As Table 2 shows, GDP growth increased from about 5% during the Z.A. Bhutto period (1973-77) to 6.6% during the Zia period (1978-88). The data show that this acceleration in the GDP growth was induced to some extent by increased investment. The gross fixed capital formation as a percentage of the GDP increased from 15.5% in the Bhutto period to 16.8% in the Zia period (Table 1).

There was a strategic shift from the “socialist” policies of nationalization, and the large public sector in the Bhutto period, to denationalization and a greater role assigned to the private sector in the growth process. In this context the Zia government offered a number of incentives to the private sector, such as low interest credit, duty free imports of selected capital goods, tax holidays and accelerated depreciation allowances. These inducements combined with high aggregate demand associated with consumption expenditures from Middle East remittances, and increased investment in housing, created a favourable climate for new investment. Private sector gross fixed investment increased from 7.1% of the GDP in the Bhutto period to 9.2% in the Zia period (see Table 1). The public sector gross fixed capital formation as a percentage of the GDP, however, declined slightly from 10.7% in the preceding period to 9.7 % in the Zia period. The data on the manufacturing sector is also consistent with these findings and show a substantial acceleration in the growth of overall manufacturing from 5.5% in the 1970s to 8.21% in the 1980s (see Table 7). In

terms of the composition of investment in the large scale manufacturing sector as Table 3 shows, there appears to be a significant acceleration in the investment in the intermediate and capital growth sectors, whose percentage share in the total manufacturing increased from about 43% at the end of the Bhutto period to about 50% in the mid-1980s (the share fell again in the late 1980s and 1990s). This is consistent with the boom in the construction sector and the secondary multiplier effects in the intermediate and capital goods sectors.

Although the GDP growth rate during the Zia period did increase, this higher growth rate could not be expected to be maintained because of continued poor performance of three strategic factors that sustain growth over time: (i) The domestic savings rate continued to remain below 10% compared to a required rate of over 20%; (ii) Exports as a percentage of GDP continued to remain below 10% and did not register any substantial increase (see Table 9); and (iii) Inadequate investment in social and economic infrastructure. As defence and debt servicing expenditure increased, the Annual Development Programme (ADP), through which much of the infrastructure projects were funded, began to get constricted. As Table 4 shows, ADP expenditure as a percentage of GDP fell from an average of 7.4% in the Z.A. Bhutto period to 6.2% in the Zia period.

It is not surprising that when the cushion of foreign loans and debt relief was withdrawn at the end of the Afghan War, the underlying structural constraints to GDP growth began to manifest themselves: Debt servicing pressures resulting from the low savings rates, high borrowings and balance of payments deficits related with low export growth and poor infrastructure, combined to pull down the GDP growth into a protracted economic recession in the 1990s. Similarly, the seeds of social conflict sown with the breeding of religious militant groups began to erupt and feed off the growing poverty and unemployment.

VI. THE DEEPENING CRISIS - 1989-1999

VI.1 Conflicts within the Power Structure and Institutional Instability

At the end of the Zia period a new triumvirate of power emerged that came to be known as the “troika”. This was an essentially informal arrangement of power sharing in the *actual* as opposed to *formal* conduct of governance, amongst the President, the Prime Minister and the Army Chief (Chief of Army Staff). The democratic dispensation was granted by the army not under pressure of a popular movement, but by the death of Zia ul Haq. Consequently, the Prime Minister would have been given a relatively weak position within the power structure in any case. Ms. Benazir Bhutto, elected Prime Minister in 1990, was weakened further by the fact that she did not have an absolute majority in the Parliament. Her freedom vis-a-vis President Ghulam Ishaq Khan and the Army Chief, General Aslam Baig, was even less than that implied by the formal structures of governance. Benazir Bhutto came to a tacit agreement to be guided by Ghulam Ishaq Khan and General Aslam Baig in some of the key areas of government policy (Burki, 2004)⁵⁰.

A fundamental feature of the “troika” was that precisely because the power sharing arrangement was informal, the contention for increasing the relative share of power by each protagonist was inherent to its functioning: without precisely specified domains of decision making, or even the confidence that each protagonist would pursue a shared perception of “National Interest”, periodic breakdown of the arrangement amongst a given set of members was a predictable feature. This is in fact what happened, so that between 1988 and 1999 an elected Prime Minister was dismissed on four occasions, three Presidents were changed and one Chief of Army Staff (General Jehangir Karamet) was pressured into resignation.⁵¹ A second Chief of Army Staff (General Pervez Musharraf) faced dismissal following an effort by Prime Minister Nawaz Sharif to enhance his power vis-a-vis the army by dividing it from within. This was the final act in the dramatic conflict within the informal “troika” that brought the curtain down on the formal democratic structure itself: General Musharraf took over power through a coup d’etat on October 12, 1999.

Prime Minister Nawaz Sharif in his second term came with a two-thirds majority in the National Assembly. His mandate was to use his strength in the Parliament to take the difficult decisions necessary to revive the economy, bring extremist militant groups within the law, and establish transparent and efficient governance. Instead of focusing on these issues, Prime Minister Nawaz Sharif proceeded to enhance his relative power position within the structure of state institutions.

Prime Minister Nawaz Sharif was able to use the two-thirds majority in the Parliament enjoyed by his party, not only to weaken the President and relegate him to a purely ceremonial role, but also to control members of his own party in Parliament. This was done by passing the constitutional amendments thirteen and fourteen. Under the thirteenth amendment the dreaded Article 58-2 (b) was withdrawn (this article of the constitution gave the President powers to dismiss the government and hold fresh elections in case of extreme misgovernance). Under the fourteenth amendment the ability of elected members of the majority party in Parliament to vote or even speak against the official position of the majority party in Parliament, on any legislative issue, was also withdrawn.

Having weakened the President, and established greater control over elected members of his own party, Prime Minister Nawaz Sharif then moved against the judiciary. He began by laying claim to judicial appointments, a claim that was resisted by the Chief Justice of the Supreme Court on grounds of the independence of the judiciary.⁵² The Prime Minister and his close associates then launched a political campaign against the judiciary during which disparaging remarks were made against it, both inside and outside the Parliament. Subsequently, the Supreme Court decided to hear a writ petition for contempt of court against the Prime Minister and some of his associates, which if it had been decided against the Prime Minister, could have resulted in his disqualification. According to independent observers, Prime Minister Nawaz Sharif and his associates then undertook to “engineer a division within the apex court”⁵³ playing a no holds barred game, “using everything from intimidation, political manipulation and money, to the ethnic card...”⁵⁴.

In spite of the consequent division and conflict amongst judges of the Supreme Court, the Chief Justice went ahead with the trial of the Prime Minister. On the day fixed by the Supreme Court for the hearing, the ruling Pakistan Muslim League (PML) transported thousands of its supporters to stage a protest against the Chief Justice. The charged mob led by close aides of the Prime Minister and PML members of Parliament⁵⁵ broke the gate of the Supreme Court building and ransacked it, forcing the Supreme Court judges to abandon the trial and retire to their chambers.

The unprecedented mob attack on the Supreme Court by a ruling political party led by close aides of the Prime Minister, brought in its wake a major constitutional crisis. When President Leghari accused the Prime Minister of inciting the attack and warned that “he would not allow the law of the jungle to prevail”⁵⁶, the Prime Minister retaliated by moving an impeachment notice against the President in Parliament and sending him a summary advising him to sack the Chief Justice. The President was now faced with the choice of getting impeached or signing what he regarded as an illegal order to sack the Chief Justice. In a situation where the Army was unwilling to step in to resolve the crisis, the President decided to resign.⁵⁷ Thus the powers that were earlier distributed between the Chief Justice, the President, and the Prime Minister, were now concentrated in the hands of Prime Minister Nawaz Sharif.

During Prime Minister Nawaz Sharif’s government, journalists who had exposed a series of corruption scandals suffered harassment.⁵⁸ This harassment reached a dramatic stage when the Jang Group of newspapers (one of the largest in the country), which had been critical of the Prime Minister, was targeted. Income tax notices were served, the Jang Group’s bank accounts were frozen, newspaper godowns sealed, its journalists threatened and sedition cases lodged. That the government’s conflict with the Jang Group did not hinge merely on the non-payment of income tax, became apparent when an audio tape of a telephone conversation between Prime Minister Nawaz Sharif’s top aides dealing with the press and Mir Shakil ur Rehman (the Jang Group’s chief editor) was revealed. One of the government’s aides issued clear threats on the phone and the policy that his newspapers should follow.⁵⁹ The

publisher of the newspaper was specifically pressured to dismiss nine journalists from its staff whom the government found “unacceptable”.

The press in Pakistan received another shock when Mr. Najam Sethi, editor of an influential weekly newspaper, *The Friday Times*, was targeted. The editor’s bedroom was broken into, at 2:45 a.m., by a security agency of the civil establishment, and he was handcuffed, dragged out of bed and taken away without a warrant of arrest. The detention without trial of Mr. Sethi followed an interview he gave to the BBC related with government corruption, and a subsequent analysis of the crisis of the state during a lecture in New Delhi. According to the statement of an official spokesman, Mr. Sethi was “arrested” not for his “journalistic activities” but for his “ridiculing the very foundations and ideology of the country”.⁶⁰

The liberal and democratic elements in civil society were outraged both by the manner of Mr. Sethi’s “arrest” and the subsequent failure of the government to bring him to trial before a court of law. Apart from Mr. Sethi’s case, which got wide publicity, there were other less famous cases of journalists being persecuted for expressing a dissenting opinion (Hussain, 1999)⁶¹. In spite of attempts at intimidation and illegal detention of the journalists, the press withstood the pressure and emerged a stronger institution.

Prime Minister Nawaz Sharif having enhanced his power relative to some of the other institutions now began to focus his attention on the Army. The COAS, General Jehangir Karamet, voiced the Army’s concern at the deteriorating economic, political, and law and order situation in a letter to the Prime Minister. As Prime Minister Nawaz Sharif continued to pursue power within the state structure, the underlying crisis worsened. On October 5, 1998 in his annual address at the Pakistan Navy War College in Lahore, General Karamet expressed his worries publicly as a prelude to stepping down rather than initiating military intervention. He argued that Pakistan could not afford “the destabilizing effects of polarization, vendettas and insecurity driven expedient policies”.⁶² Prime Minister Nawaz Sharif responded by indicating his intent to order premature retirement of the Army Chief. General Karamet chose to leave gracefully and tendered his resignation.⁶³

Not long after the appointment of the new COAS, General Musharraf, tensions between the Prime Minister and the Army intensified. In August 1999, Prime Minister Nawaz Sharif made his last attempt to bring under his control the most powerful organization of the state, the Army. Even though in terms of the formal rules of the constitution the military is supposed to be subordinate to elected civilian authority, in practice as we have seen the military was pre-eminent in the informal structure of power. This contradiction between the formal and the actual power structure was manifested in the process of appointment of the Army Chief that Prime Minister Nawaz Sharif chose. He apparently set aside the operative informal norm in the dismissal and appointment of an Army Chief, which involved consultation with the Army High Command. Instead, he attempted to bypass this 'due process' and unilaterally appointed a new Army Chief (General Zia-ur-Rehman), who was apparently unacceptable to the Army High Command. Having given appointment orders to the new Army Chief while the existing one was in Colombo on an official trip, action was then initiated to prevent the landing in Karachi of the PIA aircraft on which General Musharraf was returning. This not only brought to a dramatic head the confrontation between the Prime Minister and the Army, but also allegedly endangered the life of the Army Chief and the ordinary passengers on the plane. The Army swiftly launched a coup d'état that brought the military government of General Pervez Musharraf into power.

The Supreme Court in its validation of the military takeover referred to the crisis explicitly: "On 12th October 1999 a situation arose for which the constitution provided no solution and the intervention of the Armed Forces through an extra constitutional measure became inevitable which is hereby validated..."⁶⁴ In establishing the grounds of its verdict, there were three key elements in the Supreme Court judgment:

- (1) "...all the institutions of the state were being systematically destroyed and the economy was in a state of collapse due to the self serving policies of the previous government..."⁶⁵

- (2) "...a situation had arisen where the democratic institutions were not functioning in accordance with the provisions of the constitution..." and "...there was no real democracy because the country was by and large under one man rule".⁶⁶
- (3) "...An attempt was made to politicize the Army, destabilize it and create dissension within its ranks, and where the judiciary was ridiculed...".⁶⁷

Governance under Prime Minister Nawaz Sharif intensified to a critical level the three key elements of the crisis that threatens the state: (i) a collapsing economy; (ii) the threat to the life and property of citizens resulting from rampant crime, and the emergence of armed militant groups of religious extremists; (iii) the erosion of many of the institutions of democratic and effective governance. Given the dynamics of Pakistan's power structure and the greater strength of the military relative to other institutions within it, when a democratic regime fails to deliver on these issues, power would be expected to flow to the military (Hussain, 1996)⁶⁸. In spite of the adverse international environment for a coup d'etat, in October 1999, an extra-constitutional intervention was made by the military when the crisis had reached a critical level, and General Musharraf came into power.

VI.2 The Narrowing Democratic Space

It was clear that the relative strength of the Prime Minister within the power structure essentially depended on demonstrating that he/she was turning the country around from its descent into economic collapse, religious extremism and the breakdown of law and order. It was delivering on these counts that could have given greater legitimacy and space to the fragile and undoubtedly constrained democratic structure. Tragically, neither Prime Minister Nawaz Sharif nor Prime Minister Benazir Bhutto was able to make substantial progress in overcoming the crisis of state, economy and society within the undoubtedly constrained democratic space available to them.

VI.3 The Macroeconomics of Corruption

The governments of Prime Ministers Nawaz Sharif and Benazir Bhutto respectively were accused of large scale corruption but none of these charges could be finally proved.

During the 1990s as GDP growth began to fall below its historical trend rate, if there was indeed corruption during this period then it could have been a significant factor in intensifying the slowdown in investment, increasing the economic burden on the poor and perpetuating the inadequacy of basic services during this period.

The alleged corruption by both Prime Ministers Bhutto and Sharif during the 1990s was unprecedented in Pakistan's history in its *scale* and *public exposure*⁶⁹. Allegedly occurring at a time when GDP growth had already begun to fall below its historical trend rate, widespread governmental corruption may have been a significant factor in intensifying the slowdown in investment, increasing the economic burden on the poor and perpetuating the inadequacy of basic services during this period.

The World Bank in its recent literature has focused on the link between good governance and greater and more equitable development.⁷⁰ Conversely, it can be argued that widespread corruption in Pakistan during the 1990s adversely affected investment and growth in at least three ways. Firstly, the uncertainty and lack of transparency in government policy and the loss of time and money associated with governmental corruption would create an unfavourable environment for private sector investment. Secondly, widespread corruption in a government implies that following an investment decision, the investor would have had to pay bribes at various stages of project approval and implementation, thereby raising project cost. A significant proportion of private sector savings directed at new projects would flow to corrupt government officials rather than into productive investment. Consequently, the ICOR for the economy as a whole would tend to rise, i.e., there would be lower GDP growth for given levels of investment. Evidence shows that a decline in the productivity of capital did indeed occur in the 1990s. Nomaan

Majid has estimated a time series of the total factor productivity in the manufacturing sector and also decomposed it into changes over time in capital productivity. His estimates show that in Pakistan's manufacturing sector, the productivity of capital has been declining since 1992-93 (Majid, 1977)⁷¹. Finally, if as was alleged, banks and investment finance institutions were being forced to lend on political grounds, (substantial defaults were observed during this period), it is clear that a significant proportion of banking capital would be transferred to the rent-seekers. This would adversely affect private investment in two ways: (a) There would be less credit available for investment; (b) Due to the increased "transactions cost" of banks following defaults, the interest rate for private investors would increase. Hafiz Pasha and S.J. Burki have examined the nonperforming portfolios of public sector commercial banks during the 1990s. They estimate that it would cost the government 10 to 15 percent of the GDP in 1996-97 to deal with the resultant banking crisis (Burki, 2004)⁷².

Large scale corruption within a government would tend to not only slow down investment and growth but also increase inequality and the economic burden on the lower income groups. This would happen in three ways: Firstly, increased corruption and mismanagement in government means that for given levels of development expenditure, there would be fewer and poorer quality of public goods and services. The financial constraints of the government during the 1990s were clearly manifested in the deterioration of the irrigation system with less water available at the farm gate⁷³ as well as a reduced availability and quality of health, education and transport services provided by the government. Secondly, the total development expenditure (as a percentage of GDP) itself fell sharply during the 1990s, partly due to budgetary constraints. The low revenues, combined with slower GDP growth and high levels of government current expenditure, led to unsustainably high levels of budget deficits. Finally, since the government was unable or unwilling to plug the leakage in the tax collection system, or reduce non development expenditure, it had to resort to increased indirect taxation to deal with the fiscal crisis. Evidence on the incidence of taxation during the late 1980s and early 1990s shows that the tax burden as a percentage of income was highest at 6.8 percent

for the lowest income group (less than Rs.700 per month) and lowest at minus 4.3% for the highest income group (over Rs.4,500 per month)⁷⁴. Thus, the burden of governmental mismanagement and corruption was passed on to the poorest sections of society.

Corruption by elected governments within a fragile democratic structure can be not only a factor in undermining the economy, and intensifying the deprivation of the poor, but it also erodes the very legitimacy of the political system.

Regardless of the veracity of the corruption charges, Prime Minister Benazir Bhutto's government in August 1990, and Nawaz Sharif's government in April 1993 were both dismissed by President Ishaq Khan under Article 58.2(b) of the constitution on charges of corruption and economic mismanagement. In July 1997, during her second tenure as Prime Minister, Bhutto's government was dismissed on similar charges, this time by President Farooq Leghari who had been her close political associate. President Leghari in his dismissal order charged that the corruption under Benazir Bhutto's government had seriously damaged state institutions. Furthermore, he believed that mismanagement and corruption had brought the entire political system "close to collapse" (Burki, 2004)⁷⁵.

VI.4 Economic Growth, Employment and Poverty in the Decade of the 1990s

During the decade of the 1990s, political instability, allegations of large scale corruption and the worsening law and order situation perhaps had a significant adverse effect on private investment and GDP growth. Yet these factors merely accentuated the tendency for declining growth that was rooted in structural factors, which were manifest even in the 1980s. The failure of successive governments in this period to address the deteriorating infrastructure and the emerging financial crisis further exacerbated the unfavourable environment for investment. As Table 1 shows, total investment (as a percentage of GDP) declined from 17.9% in the period 1988-93 to 16.3% in the period 1993-1998. The decline in the overall investment was due to the fact that while the private sector investment did not increase (it remained

around 9%), the public sector investment declined sharply from 8.7% at the end of the 1980s to 5.3% at the end of the 1990s. The decline in public sector investment was to an extent due to “budgetary constraints”. Successive governments, unable to reduce their unproductive expenditures, chose instead to reduce development expenditure, which fell from 7.5% of the GDP in the period 1972-76 to only 3.4% in the period 1997-99 (see Table 4).

The sharp decline in investment and GDP growth for such a protracted period in the 1990s, though unprecedented in Pakistan’s history, had nevertheless been predicted. A study by Akmal Hussain in 1987 argued that the high growth experience of the preceding three decades may not be sustainable in the next decade due to structural constraints rooted in the deteriorating infrastructure, low savings rates and slow export growth: “...if present trends continue, we may be faced with the stark possibility that high GDP growth may not be sustainable over the next *five years...*” (emphasis added) (Hussain, 1988)⁷⁶.

While GDP growth declined during the 1990s (from 6.3% in the 1980s to 4.2% in the 1990s), employment growth has continued to remain at a low level of 2.4% since the 1980s. This indicates that the employment problem persisted during the 1990s. At the same time, the growth of labour productivity declined, which would be expected to push real wages downwards. The available evidence shows that this is indeed what happened in the 1990s. The Nomaan Majid study suggests that real wages of casual hired labour (which is the predominant form of hired labour in Pakistan) declined in both agriculture and industry during the 1990s (Majid, 1997).⁷⁷

An examination of the evidence on employment elasticities in various sectors shows that the employment elasticity in the manufacturing sector declined sharply from 0.17 in the 1980s to minus 0.10 in the 1990s, while in agriculture it declined only slightly. However, employment elasticities in construction and trade increased substantially over the two decades (see Table 11). This evidence of declining employment elasticities in agriculture and manufacturing, when combined with the evidence of declining output growth in these two sectors, suggests a crisis of employment and poverty emerging

during the 1990s.⁷⁸ Our NHDR/PIDE 2001 survey shows that supplementary income contributed through wage employment of a second member of low income agricultural households was critical in pulling the household just above the poverty line. The fact that there were slower economic growth rates, declining employment elasticities and falling real wages in both agriculture and industry during the 1990s, had an important implication for the mechanism of poverty creation: It meant that increasingly, the second family members of households on the margin of poverty could not get adequate wage employment. This could have been a significant factor in pushing increasing numbers of households into poverty.

A second important dimension of the dynamics of poverty creation in this period was located in the increased fluctuations in agricultural output, which was pointed out in a study by Akmal Hussain.⁷⁹ The study indicates that under conditions of declining input productivity, when higher input per acre is required to maintain yields, subsistence farmers with fewer resources are likely to suffer a greater than average decline in yields compared to large farmers. At the same time, due to a lack of savings to fall back on, they are relatively more vulnerable to bad harvests under conditions of unstable growth (Hussain, 1999)⁸⁰. Consequently, slower and more unstable growth during the 1990s could be expected to be accompanied by growing poverty and inequality. This is precisely what happened during the 1990s. The ratio between the income share of the highest 20% and the lowest 20% income groups of the population had fallen to 5.5 in 1986-87. That ratio increased to 7.1 in 1996-97. Similarly the percentage of the population below the poverty line (calorific intake basis) was 17.3% in 1987-88, and increased to 28% in 1998-99.

CONCLUSION

In this chapter we have traced through various political periods, the dynamic interaction between the processes of deterioration in the institutions of governance on the one hand and the structure of the economy on the other. The purpose was to understand the emergence of the process of endemic mass poverty and the tendency for loan dependence and unsustainable GDP growth.

The Ayub period was characterized by denial of political rights to the people and economic policies that induced acute social and regional economic disparities. The resultant political tensions exploded into a civil war and the emergence of independent Bangladesh. We saw how the mechanisms of rural poverty observable today were rooted in the increased peasant dependence on the landlord, and asymmetric markets for inputs and outputs that resulted from a particular form of agricultural growth during the Ayub period. The analysis also showed how the tendency for the economy's loan dependence so manifest today may have originated in the policies of the Ayub government. The government by providing state subsidies locked the economy into an industrial structure that was dominated by low value-added industries, incapable of generating adequate foreign exchange for the country.

The structural constraints to fiscal space were exacerbated as successive governments engaged in financial profligacy and allocation of state resources based on considerations of political patronage rather than economic efficiency. Nationalization of industries during the Z.A. Bhutto period enlarged the domain of power and patronage for the government. However, the consequent growing losses of nationalized units laid the basis of subsequent fiscal hemorrhaging of the government. The sharply rising budget deficits during the Z.A. Bhutto period were accentuated by a huge increase in expenditures on the state apparatus as part of the attempt to build a domain of patronage and power within the state structure.

The military government during 1977 to 1987 sought to establish dictatorial rule by means of an obscurantist and retrogressive version of religious fundamentalism. State resources were used for the first time to foster armed groups of religious extremists and to finance religious seminaries (madrassas), many of which systematically indoctrinated young minds to hate and kill. The politics of the Zia period, therefore, laid the basis of the emergence of armed militant groups in society and sectarian violence, which was to undermine the process of investment and growth as much as the institutions of governance. During the Zia period state funds were directed to establishing a theocratic state instead of urgently needed investment in the maintenance of the

irrigation system and technical training of the human resource base. Consequently, when the cushion of foreign financial assistance was withdrawn after the Afghan war, investment and growth declined, budget deficits increased sharply, and poverty intensified.

The decade of the 1990s was marked by allegations of democratically elected leaders using public office for private gain. To the extent that there was corruption, it was a factor in the misallocation of national resources and the consequent intensification of the fiscal crisis. We have analyzed how if there is widespread corruption it is a factor in not only reducing private sector investment, but also reducing the productivity of capital, thereby sharply slowing down GDP growth. During this period the structure of GDP growth also underwent further adverse changes as both capital and labour productivity fell sharply, together with declining employment elasticities. A reduction in capital productivity led to slower growth, while a reduction in labour productivity led to falling real wages. As both GDP growth and real wages fell, poverty tended to increase. This tendency was reinforced by declining employment elasticities. Thus, bad governance and associated adverse changes in the structure of the economy in this period laid the basis for a rapid increase in poverty and unemployment.

We have seen how the military governments of General Ayub Khan and General Zia ul Haq laid the structural basis for deterioration in the institutions of the polity and an economy characterized by loan driven growth and endemic poverty. We also have seen that the democratically elected governments in various periods sought authoritarian forms of power within formally democratic structures, and thereby accelerated the process of institutional and economic decline. Thus, the problem of persistent poverty, inequality and unstable economic growth is located as much in institutional instability as it is in conflicts within the power structure.

TABLE 1**PERIOD AVERAGES OF GROSS INVESTMENT* AS A % OF GDP**

Average During	GFCF (Total) as % of GDP (Current Prices)	GFCF (Private) as % of GDP (Current Prices)	GFCF (Public) as % of GDP (Current Prices)
1960-1973	15.28	8.21	7.26
1973-1978	15.50	4.79	10.71
1978-1988	16.77	7.10	9.66
1988-1993	17.95	9.22	8.73
1993-1998	16.3	9.32	7.36
1998-2000	13.26	8.10	5.31

Source: Economic Survey, Government of Pakistan (G.O.P.), Economic Advisor's Wing, Finance Division, Various Issues.

Note: *GFCF is Gross Fixed Capital Formation

TABLE 2**PERIOD AVERAGES OF THE PERCENTAGE SHARE OF SELECTED MACROECONOMIC INDICATORS
IN THE GDP OF PAKISTAN**

Average During	Real GDP Growth % (Market Prices)	Domestic Savings as % of GDP	Average Export Growth %	Exports as % of GDP	Trade Balance as % of GDP	Workers Remittances as % of GDP	Debt Servicing as % of GDP
1960-1973	6.26	12.99	16.19	4.57	-5.11		1.28
1973-1978	4.99	7.29	10.31	8.79	-7.27		2.04
1978-1988	6.6	8.15	14.33	9.59	-8.66	7.71	2.44
1988-1993	4.92	12.99	9.19	13.01	-5.00	4.54	3.02
1993-1998	3.14	14.98	5.15	13.50	-3.99	2.55	3.48
1998-2000	4.17		0.16	13.69	-2.33	1.71	2.55

Source: Economic Survey, Government of Pakistan (G.O.P.), Economic Advisor's
Wing, Finance Division, Various Issues.

TABLE 3**TOTAL INVESTMENTS IN VARIOUS INDUSTRIES AS A % OF TOTAL INVESTMENT IN ALL INDUSTRIES IN THE LARGE SCALE MANUFACTURING SECTOR OF PAKISTAN***

Years	Investment in all Consumer Goods	Investment in Intermediate & Capital Goods	Investment in Textile & Related Goods	Investment in all Other Industries
1964-65	22.7	25.2	41.1	11.1
1966-67	28.7	30.8	37.3	3.1
1970-71	31.8	27.3	38.0	2.9
1976-77	31.2	22.1	17.9	28.8
1977-78	23.6	43.2	23.7	9.6
1982-83	18.0	49.7	21.5	10.7
1983-84	24.5	57.2	17.9	0.3
1987-88	29.4	21.8	37.4	11.4
1990-91	28.7	24.6	44.4	2.2

Source: Census of Manufacturing Industries, FBS, Statistics Division, Govt. of Pakistan. Various Issues.

Notes:

1. The CMI data represents only the large scale manufacturing sector in the economy.
2. The compilation of CMI data is conducted through mail enquiry supplemented by field visits. The questionnaires are issued to the factories as per a list of manufacturing establishments maintained on the basis of monthly statements of registrations and cancellations received from the Provincial Chief Inspectors of Factories, and Directorates of Labour Welfare of the Provinces.
3. Large scale manufacturing industries are those which employ 20 workers or more on any one given day of the year for manufacturing activity.
4. Investments here refer to all fixed assets consisting of land and buildings, plants, machinery and other fixed assets which are expected to have a productive life of more than one year and are in use by the establishment for the manufacturing activity.
5. Investments for a year include additions made during the year minus any sales of fixed assets during that year. These consist of both Pakistan-made and imports, and assets made for own use.

** Data refers to the figures obtained from the industries/establishments included in the census and does not represent the figures as a whole for the economy of Pakistan.*

TABLE 4**ANNUAL DEVELOPMENT PROGRAMME (ADP) AS A PERCENTAGE OF GDP
PERIOD AVERAGES**

Average During	ADP as a % of GDP
1972/73 to 1976/77	7.4
1977/78 to 1986/87	6.24
1987/88 to 1996/97	4.26
1997/98 to 1999/2000	3.5

Source: Economic Survey, GOP, Economic Advisor's Wing, Finance Division, Various Issues.

TABLE 5**GROWTH OF GDP, EMPLOYMENT AND PRODUCTIVITY IN TWO DECADES**

GROWTH	<i>Percent</i>	
	1980s	1990s
1. GDP GROWTH	6.3	4.2
2. EMPLOYMENT GROWTH (TOTAL)	2.4	2.4
(i) Agriculture	1.9	1.6
(ii) Manufacturing	1.4	-0.4
3. PRODUCTIVITY GROWTH (TOTAL)	3.9	1.8
(i) Agriculture	2	1.7
(ii) Manufacturing	7	4.6

Source: Nomaan Majid, Pakistan: An Employment Strategy, ILO/SAAT, December 1997 (Mimeo), Table A5, page 58.

TABLE 6**PERCENTAGE SECTORAL SHARE OF MANUFACTURING IN GDP (CONSTANT PRICES)**

Period	Small Scale Manufacturing	Large Scale Manufacturing	Total Manufacturing
1949-50	4.56	1.83	6.39
1959-60	4.18	5.60	9.78
1969-70	2.92	10.23	13.14
1979-80	3.54	9.46	13.00
1989-90	4.36	11.32	15.68
1994-95	5.15	11.22	16.37
1998-99	4.55	11.10	15.65

Source: Federal Bureau of Statistics, GOP, and Economic Survey, GOP, Economic Advisor's Wing, Ministry of Finance, 2000-2001.

TABLE 7**GROWTH RATES OF THE MANUFACTURING SECTOR**

Period	Small Scale Manufacturing	LSM	Total Manufacturing
1959/60 to 1969/70	2.85	12.43	9.24
1970/71 to 1979/80	7.21	4.84	5.50
1980/81 to 1989/90	8.40	8.16	8.21
1990/91 to 1995/96	7.88	4.40	5.59
1996/97 to 1999/2000	5.31	2.21	1.29

Source: Federal Bureau of Statistics, GOP, and Economic Survey, Economic Advisor's Wing, Ministry of Finance, GOP, 2000-2001.

TABLE 8**SHARES OF DIFFERENT MANUFACTURING INDUSTRIES IN THE VALUE ADDED ORIGINATING IN THE MANUFACTURING SECTOR**

Years	1959/60	1969/70	1980/81	1985/86	1990/91	1995/96
All Industries	100.00	100.00	100.00	100.00	100.00	100.00
Food Manufacturing	8.33	14.78	20.12	17.65	14.05	15.19
Tobacco Manufacturing	5.56	7.96	13.26	10.15	6.35	6.18
Manufacturing of Textiles	40.19	32.30	15.93	15.54	26.35	22.31
Chemicals & Chemical Products	8.42	8.92	8.00	11.82	10.41	11.51
Basic Metal Industries	3.13	2.41	3.98	3.97	5.54	4.15
Manufacturing of Metal Products	3.91	1.79	1.06	0.85	0.86	0.71
Electrical Machinery	2.43	3.33	3.47	3.36	4.11	7.67
Transport Equipment	3.30	1.39	2.47	2.50	2.59	3.50
All Others	24.74	27.13	31.71	34.16	29.74	28.77

Source: Census of Manufacturing Industries, FBS, Statistics Division, GOP, Various Issues.

TABLE 9**PERIOD AVERAGES OF EXPORTS OF VARIOUS COMMODITY GROUPS AS A % OF TOTAL EXPORTS OF PAKISTAN**

Years	<i>Percentages</i>			
	Agricultural & Food & Live Animals Exports as a % of Total Exports	Intermediate Goods as a % of Total Exports	Capital Goods as a % of Total Exports	Textile & Related Goods as a % of Total Exports
1960-1970	55	8	0.87	30
1973-1977	35	7	0.73	31
1978-1987	33	6	1.14	29
1988-1999	17	4	0.33	50

Source: Federal Bureau of Statistics, Statistics Division, GOP.

TABLE 10

**GOVERNMENT EXPENDITURE ON DEFENSE AND GENERAL
ADMINISTRATION AS A % OF TOTAL GOVERNMENT REVENUE
(CONSOLIDATED FEDERAL AND PROVINCIAL)**

1980-81	35
1981-82	36
1982-83	34
1983-84	35
1984-85	37
1985-86	34
1986-87	34
1987-88	30
1988-89	32
1989-90	32
1990-91	31
1991-92	30
1992-93	32
1993-94	31
1994-95	29
1995-96	29
1996-97	30
1997-98	34
1998-99	36
1999-2000	33

Source: Economic Survey, Government of Pakistan (GOP),
Economic Advisor's Wing, Finance Division, Various Issues.

TABLE 11**EMPLOYMENT ELASTICITIES OF OUTPUT BY SECTORS IN TWO DECADES**

EMPLOYMENT ELASTICITY	Percent	
	1980s	1990s
Agriculture	0.49	0.48
Manufacturing	0.17	-0.10
Construction	1.05	1.81
Electricity & Gas	-0.39	0.32
Transport	0.48	0.14
Trade	0.37	1.22

Source: Nomaan Majid, Pakistan: An Employment Strategy, ILO/SAAT, December, 1997, page 48.

TABLE 12**CASUALTIES IN SECTARIAN VIOLENCE**

YEARS	KILLED	INJURED	TOTAL CASUALTIES
1987 to 1989	22	273	295
1990 to 1992	137	1052	1189
1993 to 1995*	166	648	814

Source: Zia ul Hasan Khan: Rise of Sectarianism in Pakistan: Causes and Security Implications. Research paper, Pakistan Administrative Staff College, Lahore 1995.

Note* Figures for 1995 up to October 1995.

Notes

- ¹ Sections III, IV, V and VI are drawn from the author's earlier work for the UNDP, Pakistan National Human Development Report 2003, Oxford University Press, Karachi, 2003 and also from his paper titled: Institutions, Economic Structure and Poverty in Pakistan, South Asia Economic Journal, Volume 5, Number 1, January-June 2004, SAGE Publications, Delhi, 2004.
- ² Douglass C. North, Understanding the Process of Economic Change, Princeton University Press, 2005.
- ³ Adrian Leftwich, From Drivers of Change to the Politics of Development: Refining the Analytical Framework to Understand the Politics of the Places Where we Work, Department of Politics, University of York, Final Version, 11 July 2006 (Mimeo), page 3.
- ⁴ Douglass C. North, Understanding the Process of Economic Change, Princeton, New Jersey, 2005, page 51.
- ⁵ Ibid. page 52.
- ⁶ Hamza Alavi, Class and State in Pakistan, The Unstable State, ed., H. Gardezi and J. Rashid, Vanguard Books, Lahore, 1983.
- ⁷ Imran Ali, Background paper for the UNDP, Pakistan National Human Development Report, 2003 (Mimeo).
- ⁸ For example, the population of Lahore had reached half a million by the 17th century, and was greater than any European city until the subsequent expansion of London and Paris. By the time the British took over in the mid 19th century the population of Lahore had declined to only 85,000 people. [See, Imran Ali, Background paper for the Pakistan National Human Development Report 2003].
- ⁹ Ibid.
- ¹⁰ Imran Ali gives examples of some of the families of this new landed elite. One of them came from the Phulkian war band and was named after a Sidhu Jat peasant called Phul whose descendents in British times ruled the princely states of Patiala, Nabha and Jind, and the fiefs of Bhadour, Maloudh and Badrukhan. Other Sidhu Jat families established the state of Faridkot, the jagirs of Kaithal and Arnauli, and a large number of smaller fiefs. The ruling family of Kapurthala State were descended from the Sikh war band leader, Jassa Singh, who belonged to the lowly caste of Kalal, or liquor producers. The ruling family of Bahawalpur State emerged from the upper peasant Daudpotra caste.
- ¹¹ One of the few exceptions was the Sayyed family of the pirs of Batala which was established in the late 17th century by Sayyed Muhammad Fazal-Uddin who was a descendent of the great Sufi saint, Syed Abdul Qadir Gillani of Baghdad. The forefather of Sayyed Fazal-Uddin, named Sayyed Badi-Uddin had been persuaded by the Mughal King Humayun to come to India and was appointed his Chief Justice. [Israr ul Hasnain Qadri Fazli, Tazkara-e-Mashaikh Qadria-Fazlia, Tasawaf Foundation, Lahore, 1998].
- ¹² Imran Ali, op.cit.
- ¹³ Imran Ali: (i) The Punjab Under Imperialism, 1885-1947, Princeton, N.J. 1988.

(ii) Malign Growth? Agricultural Colonization and the Roots of Backwardness in the Punjab.

- 14 Allen McGrath, "The Destruction of Pakistan's Democracy". Oxford University Press, Karachi, 1996.
- 15 Lawrence Ziring, The Enigma of Political Development, Westview Press, Boulder, 1980.
- 16 See S.J. Burki: Pakistan: Fifty Years of Nationhood, Vanguard Books, Lahore 2004, page 32.
- 17 The government then proceeded to take over the Pakistan Times and Imroze which were two of the most influential English and Urdu daily newspapers respectively.
- 18 See S.J. Burki: Pakistan: Fifty Years of Nationhood, op.cit., page 32.
- 19 This enabled exports of certain manufactured goods to receive in addition to the rupee revenue of their exports, bonus vouchers equivalent to a specified percentage of the foreign exchange earned. The vouchers could be sold in the market (to potential importers) for a price usually 150 to 180 percent above the face value. Thus the exporter not only earned the rupee revenues from exports but also an additional premium through sale of the bonus vouchers.
- 20 Soligo, and J.J. Stern, Tariff Protection, Imports Substitution and Investment Efficiency, The Pakistan Development Review, 1965, pages 249-70.
- 21 Sikander Rahim: Myths of Economic Development, Lahore School of Economics, Occasional Paper No.10, February 2001.
- 22 K. Griffin: Financing Development Plans in Pakistan, in K. Griffin and A.R. Khan, Growth and Inequality in Pakistan, Macmillan, London, 1972, pages 41-42.
- 23 For example, during 1950-55 grant and grant type assistance constituted 73% of total foreign aid. By 1965-70 this type of assistance had declined to only 9% of total foreign aid. See: Economic Survey, Government of Pakistan, Finance Division, Islamabad, 1974, page 133.
- 24 Pakistan Economic Survey, various years, Government of Pakistan, Finance Division, Economic Advisor's Wing, Islamabad.
- 25 L.J. White: Industrial Concentration and Economic Power in Pakistan, Princeton University Press, 1974, page 63.
See also: Rashid Amjad, Private Industrial Investment in Pakistan, 1960-70, Cambridge University Press, Cambridge 1982.
- 26 N. Hamid, The Burden of Capitalist Growth, A study of Real Wages in Pakistan, Pakistan Economic and Social Review, Spring 1974.
- 27 K. Griffin and A.R. Khan, op.cit. pages 204-205.
- 28 S.M. Naseem: Rural Poverty and Landlessness in Asia, ILO Report, Geneva, 1977.
- 29 Naved Hamid and Akmal Hussain: "Regional Inequalities and Capitalist Development", Pakistan Economic and Social Review, Autumn 1974.

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- ³⁰ Akmal Hussain: Impact of Agricultural Growth on changes in the Agrarian Structure of Pakistan, with special reference to the Punjab Province, D.Phil. Thesis, University of Sussex 1980. Also see: Akmal Hussain: Strategic Issues in Pakistan's Economic Policy: Technical Change and Social Polarization in Rural Punjab, Chapter 4, Progressive Publishers, Lahore, June 1988.
- ³¹ Omar Noman, "The Political Economy of Pakistan, 1947-85". Routledge, Kegan and Paul, London, 1988, page 79.
- ³² It may be pertinent to point out here that the decline in private sector manufacturing as a percentage of the GDP, had already begun eight years before the Bhutto period, after the 1965 war. So while the nationalization and subsequent economic measures cannot be said to have *caused* the decline in private investment, they certainly intensified it. [See A.R. Kemal: Patterns of Growth in Pakistan's Industrial Sector, in Shahrugh Rafi Khan (ed.). Fifty Years of Pakistan's Economy, O.U.P, Karachi 1999, page 158].
- ³³ Ibid, page 158.
- ³⁴ Not only was most of the investment in the period emanating from the public sector, but a large proportion of this investment was going into unproductive spheres: Defence and public administration were the fastest growing sectors of the economy (11.4%) while the commodity producing sector was growing at only 2.21% during the period. Even in the productive sector, the lion's share of the public investment went into the Steel Mill project beginning in 1973. The project, using an obsolete Soviet design, involved a technology that was both capital intensive and inefficient. Consequently, the tendency of declining productivity of investment was exacerbated.
- Even in the existing manufacturing industries in the public sector while some industries showed good profits to start with, there was a sharp decline in the rates of return on investment, due to a combination of poor management of existing units and improper location of new units on political grounds. [See, Omar Noman: The Political Economy of Pakistan, op.cit. page 80].
- ³⁵ Apart from the increased expenditures on defence and administration, the budget was additionally burdened by the losses of the public sector industries. The deficits in these industries were generated by their poor performance on the one hand and the pricing policy on the other. Nationalized units under official pressure to suppress price increases in spite of rising costs, were recovering not much more than their operating costs. Consequently, internally generated funds could finance only 7% of the investment undertaken, thereby necessitating heavy borrowing from the government. [Omar Noman, Op. cit. page 82].
- ³⁶ For a more detailed discussion on the nature of changes within the state structure see: A. Hussain: Strategic Issues in Pakistan's Economic Policy, op.cit., pages 378 and 379.
- ³⁷ Hafiz Pasha in Shahrugh R. Khan (ed.), op.cit. page 209, Table 3.
- ³⁸ Omar Noman, op.cit. page 122.
- ³⁹ President Zia ul Haq publicly stated: "Martial law should be based on fear". In the same vein, Brigadier Malik wrote: "Terror struck into the hearts of enemies is not only a means, it is the end itself". See: Omar Noman, op.cit., page 122.
- ⁴⁰ "You may belong to any religion or caste or creed, that has nothing to do with the business of the state..... We are starting with this fundamental principle that we are all citizens and equal citizens of one state.... Now, I think we should keep that in front of us as our ideal and you will find that in the course of time Hindus would cease to be Hindus and Muslims would cease to be Muslims, not in the religious

sense, because that is the personal faith of each individual but in the political sense as citizens of the state.” Speech of Mohammad Ali Jinnah as President of the Constituent Assembly, August 11, 1947, cited in Muhammad Munir, from Jinnah to Zia, Vanguard Books, Lahore 1979, page 29-30.

41 President Zia ul Haq declared: “Democracy means freedom of the Press, Martial Law its very negation”. The Daily Dawn, 12th July 1977, cited in Omar Noman, op.cit. page 124.

42 The hero Ranjha is celebrated as the synthesis of love and reason, See: Najam Hussain Syed, Recurrent Patterns in Punjabi Poetry, Punjab Adbi Markaz, Lahore, Second edition, 1986.

43 In the absence of a popular mandate, Zia claimed that his mission to bring an “Islamic Order” in Pakistan had a divine sanction: “I have a mission given by God to bring Islamic Order to Pakistan”. Omar Noman, op.cit.

44 Ibid.

45 Ibid.

46 According to an estimate which is really in the nature of a “guesstimate” the narcotics trade amounted to US \$ 3 billion, See the weekly “The Economist” (London), April 10, 1985.

47 Akmal Hussain, Civil Society Undermined, in, Strategic Issues....., op.cit., page 386.

48 Zia ul Hasan Khan, Rise of Sectarianism in Pakistan: Causes and Implications, Research Paper (Mimeo), Pakistan Administrative Staff College, Lahore 1995.

49 As many as 78.9% of emigrants to the Middle East were production workers See: Jillani et.al. Labour Migration PIDE, Research Report No. 126.

50 These included the nuclear policy, foreign policy with respect to Afghanistan and India and “military affairs”, presumably with respect to personnel appointments and budgetary allocations. This is pointed out in S.J. Burki, Pakistan: Fifty Years of Nationhood, op.cit., page 70.

51 The contention for power expressed itself in some cases in terms of the appointment and dismissal decision of key positions in the military. The contention also occurred on the issue of the legally correct application of Article 58 2(b) under which the President could dismiss the government and dissolve the national assembly “if in his opinion a situation has arisen in which the government of the Federation cannot be carried on in accordance with the provisions of the Constitution”. For example Prime Minister Benazir Bhutto in 1989 recommended to President Ishaq Khan that the Chairman Joint Chiefs of Staff be retired. This was done on the basis of her view that under the constitution the President could dismiss or appoint a person in this position only on the “advice” of the Prime Minister. The President in this case refused, on grounds that he was both the appointing and dismissing authority and was not obliged to accept the Prime Minister’s advice. This contention was seen as a test case for determining the grey area in the constitution of 1973 as modified in 1985: Did all executive powers rest solely with the Prime Minister, or were executive powers to be shared between the two? This issue could not be resolved since Bhutto having attempted to assert her power of appointment of Service Chiefs, quietly withdrew when the President held firmly to his position on the Sirohey affair.

Other examples of the contention within the troika were the legal challenges mounted by both Benazir Bhutto and Nawaz Sharif after their dismissals by the President under article 58 2(b) of the constitution, in 1990 and 1993 respectively. Benazir Bhutto filed an appeal before the Supreme Court arguing that the grounds for the application of Article 58 2(b) and dismissal of her government were invalid. Her appeal was not upheld. Nawaz Sharif too filed an appeal after the dismissal of his government in 1993 and in this case the Supreme Court upheld his appeal and ordered restoration of the Assemblies and reinstatement of the Prime Minister. As

Nawaz Sharif and his cabinet returned to the cabinet room a constitutional crisis erupted, since the President refused to cooperate. In this case the crisis was resolved by the Army in its own way: As COAS General Kakar put it: "I had to intervene. I ordered both of them out of office".

52 The Chief Justice of the Supreme Court at the time, Sajjad Ali Shah, later stated: "the independence of the judiciary can be maintained only when the Chief Justice has some kind of control over the appointment of judges...the appointment of judges should not be made by executive for political reasons...". See: Interview, published in the monthly Herald, January 1998, page 48.

53 Cover Story, the monthly Newline, December 1997, pages 24, 25.

54 Ibid.

55 The mob attack and the close aides of the Prime Minister laughing and encouraging the mob attack, could be seen on BBC Television, and also in the video record of the court. This was also widely reported in the national press. See for example: Monthly Newline, December 1997, page 26.

56 Newline op.cit. page 26.

57 The indication that the Army had decided to stay aloof came when the Army ignored requests by both the Chief Justice and the President to provide physical security to Chief Justice Sajjad Ali Shah following the mob attack on the Supreme Court. There were three factors at the time which would have made military intervention against an elected government at that stage a high risk venture: (a) The country faced the most serious economic crisis in its history and the credibility of the Army could be adversely affected if it were unable to overcome the economic crisis (b) The international community may not have been supportive of a military government (c) There was danger of a domestic political backlash (street demonstrations) against the overthrow of an elected government with such a huge majority in Parliament.

58 Mr. Najam Sethi, the editor of The Friday Times, a respected liberal weekly newspaper, reported that his printers were served with notices threatening closure. Thugs were sent to soften him up and rape and kidnapping threats were made to his wife and children. See: The Friday Times, October 9-15, 1998.

59 This audio tape was played to a public audience at the Lahore Press Club. Also See: The Friday Times, February 5-11, 1999: Ejaz Haider: Press Government or State-Society Struggle? Editorial: Well Fought Shakil-ur-Rehman.

60 The daily News, Tuesday May 11, 1999, front page.

61 For example Mr. M.A.K. Lodhi of the Friday Times was held in illegal detention, while Mr. Hussain Haqqani, a freelance columnist was placed in official custody. A journalist on the editorial staff of the daily News, Mr. Imtiaz Alam, an unrelenting critic was subjected to threats from the civilian security apparatus controlled by the government, and then his car was carefully rolled out of his gate and set on fire. See: Akmal Hussain: Democracy without Dissent in the Daily News, 25th May 1999.

62 Quoted in the article titled: General Discontent by Zafar Abbas, in the monthly Herald, October 1998, page 44.

63 Zafar Abbas, op.cit. page 45.

64 Text of the Supreme Court Verdict in the Military Take-over Case published in the daily Dawn, 13th May 2000, page 5.

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- 65 Ibid.
- 66 Ibid.
- 67 Ibid.
- 68 For an analysis of these dynamics, see: Akmal Hussain: The Dynamics of Power: Military, Bureaucracy and the People, in K. Rupasinghe and K. Mumtaz (ed.): Internal Conflicts in South Asia, Zed Books, London (1996).
- 69 Reference to Transparency International Annual Report, 1996 (Burki page 170).
- 70 Governance and Development, World Bank, Washington DC, page 3.
- 71 See: Nomaan Majid. Pakistan: An Employment Strategy, ILO/SAAT, December 1997.
- 72 See: S.J. Burki, op.cit. page 174.
- 73 Out of the 93 MAF of water extracted from the rivers as little as 31 MAF reached the farmer, i.e. 67% of the water was lost due to deterioration in canals and water courses. See Chapter 1.
- 74 See: Overcoming Poverty, Report of the Task Force on Poverty Alleviation, May 1997.
- 75 S.J. Burki, Pakistan: Fifty Years of Nationhood, op.cit. page 171.
- 76 Akmal Hussain: Strategic Factors in Pakistan's Economic Policy, Progressive Publishers, Lahore 1988, Introductory Essay: Is Pakistan's Growth Path Sustainable? page xviii.
- Declining growth in the next decade could be predicted because: "...the strategic variables and sectors through which growth is sustained over time seem to show a declining trend: For example the growth rate of fixed investment, the domestic savings rate, the growth rate in the value of exports, and finally the weight of the commodity producing sectors in the economy...", Akmal Hussain, op.cit. page 4.
- 77 Nomaan Majid: ILO/SAAT, op.cit. pages 34, 35.
- 78 Agriculture and manufacturing have historically absorbed the bulk of the employed labour force in Pakistan. For example in 1969-70, 72.6% of the total employed labour force was employed in these two sectors. By the mid-nineties this percentage fell, but was still over 60%.
- 79 Akmal Hussain: Employment Generation, Poverty Alleviation and Growth in Pakistan's Rural Sector: Policies for Institutional Change, ILO, 1999 (Mimeo). The study analyses the structural factors that slowed down agricultural growth and increased its variability from year to year.
- 80 Ibid. page 4.

CHAPTER 3

GROWTH, POVERTY AND CONFLICT: 1999-2007

By

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INTRODUCTION

General Musharraf, who came to power through a military coup d'état in October, 1999, sought to institutionalize the dominance of the military within the power structure. He concentrated executive power in the hands of the President, combined the posts of President and Army Chief in his own person, established the National Security Council as an apex decision making body on national security issues, weakened the Prime Ministerial post, and restricted the role of the Parliament as an institutional check on executive power. While he did hold elections, and managed to get a parliamentary majority for a political party (PML-Q) loyal to him, the civilian façade constructed by Musharraf was arguably thinner than the earlier ones. To reduce the danger of mainstream political parties mounting a political challenge against him, General Musharraf got the leaders of the two main political parties (Ms. Benazir Bhutto and Mr. Nawaz Sharif) to go into exile.

Musharraf sought legitimacy for the new political structure by attempting to restore order (in the face of violence by religious extremists) on the one hand and reviving the economy on the other. These two objectives became linked after 9/11 when President Musharraf apparently reversed the Pakistani government's earlier policy of support for the Taliban and positioned Pakistan as a frontline state in the U.S.-led war against terrorism. The resultant large foreign inflows induced a sharp acceleration in GDP growth. As in the earlier high growth periods (Ayub and Zia periods), the underlying structural constraints (see Chapter 2, Sections III and V) soon began to manifest

themselves in the form of high inflation rates and growing pressures on the balance of payments. At the same time, the power structure and the associated institutions began to once again show signs of instability as popular resistance to the political order intensified, and military operations against the state by the Al Qaeda-Taliban combination gathered momentum. In this chapter we will begin by examining two questions: (i) Is the present high GDP growth sustainable? (ii) Is it pro-poor? The chapter ends by locating the problem of unstable growth and persistent poverty in the continuing crisis of institutional instability on the one hand and the challenge to state authority on the other.

I. IS ECONOMIC GROWTH SUSTAINABLE AND PRO-POOR?

Perhaps the two most important features of the economy during the Musharraf government have been the high growth rate (averaging at about 7 percent, see table 1) and the declining but still high rates of absolute and relative poverty in the country. However, the questions that arise are whether this growth is sustainable and whether it has become pro-poor. In the ensuing sections we will address these questions by identifying the strategic factors that determine growth sustainability and analyzing the sources of growth to show why it was pro-rich rather than pro-poor.

I.1 The Strategic Parameters for Growth Sustainability¹

Rodrik (2004)² points out that Pakistan belongs to a set of countries that has experienced a number of growth ‘spurts’ but has not been able to sustain growth over a considerable period or to take the economy onto a higher trajectory. In order to assess the prospects of growth sustainability in the years ahead, let us identify the five strategic parameters that determine the sustainability of GDP growth (Akmal Hussain, 2007).

I.1.1 *Stable Polity and Open Access Institutional Structure*

As the New Institutional Economics literature has shown,³ it is institutions that provide the framework for efficiently functioning markets and incentives for sustained investment, efficiency, innovation and growth. More recently Greif has argued that it is not just one or two institutions but the *set* of institutions specific to the historical

conditions of a particular country that enable sustained growth (Greif, 2006)⁴. Furthermore the institutional set flows from the polity which specifies the formal rules of each institution. Thus Douglass North postulates that “it is the polity that defines and enforces the formal economic rules of the game and therefore is the primary source of economic performance”⁵. As we have argued in Chapter 1, the stability of the polity and the associated institutional structure in turn is conditioned by informal norms and consciousness that are rooted in the core values and belief systems of a society. In Pakistan there has been a failure so far to bring about the necessary changes in the power structure for establishing a stable polity and the associated institutional set. The latter includes establishment of private property rights, particularly in agricultural land and intellectual property, the replacement of rent-based institutions by institutions that enable competition, and the replacement of limited access to the economy and polity with merit-based open access. In Pakistan, in the absence of these necessary institutional conditions, sustained growth would not be expected to occur. Instead what can be expected is a continuation of the pattern of growth spurts fueled by foreign inflows, followed by periods of declining growth when foreign inflows are reduced due to various exogenous factors.

I.1.2 *Investment and ICORs*

The investment required to produce an additional unit of output in the economy as a whole is called the Incremental Capital Output Ratio or ICOR for short. The ICOR is an indicator of the productivity of capital and underlying it are a variety of qualitative and institutional factors such as the quality of infrastructure, the size and quality of the trained labour force, the quality of university education and research institutions and their linkage with industry, the professional skill of civil servants in key departments and the quality and accountability of democratic governance.

In Pakistan’s case the latest independent measure of the ICOR value is 4, which is about the average for developing countries. This means that in order to generate (on a sustainable basis) a GDP growth of 7.5 percent, the investment rate (investment as a percentage of GDP) must be at least 30 percent. Given the fact that Pakistan’s investment

rate (more precisely, gross fixed capital formation as a percentage of GDP) averaged at about 17 percent during the Musharraf period (see Table 1), it is clear that without a huge increase in the investment rate, it may not be possible to sustain the government's target GDP growth of 7.5 percent.

I.1.3 *The Domestic Savings Rate*

The second strategic determinant of growth sustainability is the domestic savings rate (savings as a percentage of GDP). If the domestic savings are less than the amount invested in the economy, then clearly the gap is filled either through loans (whether domestic or foreign) or foreign private capital inflows. The problem with loans is that over time they increase the debt-servicing burden of a country to a point where the consequent pressures on the budget and balance of payments force a slowdown in GDP growth as happened during the 1990s. In Pakistan domestic savings have historically been inadequate to finance investment, thereby resulting in perennial loan dependence. In recent years there has been a further reduction in the domestic savings rate. Consequently, as pointed out by the State Bank (SBP 2006)⁶ the gap between savings and investment is growing, resulting in sharply increased fiscal and balance of payments pressures. That this is happening even at the existing level of investment, which we have seen is inadequate to sustain a GDP growth of 7.5 percent, casts doubt on the government's claim that it can maintain its growth performance in the future. Shahid Javed Burki has argued that Pakistan's recent high growth performance is based essentially on a consumer boom induced by cheap credit, improved capacity utilization and a good harvest. When adjusted for these short-term factors, he suggests that the GDP growth rate is still on the trend rate of the 1990s at 3 percent (Burki, 2006)⁷.

I.1.4 *Export Growth Consistent with Import Expenditures*

It is necessary to achieve a growth rate of exports sufficiently high to provide the foreign exchange earnings for financing the growing import expenditures associated with a high GDP growth trajectory. Maintaining a high foreign exchange earning capability requires an export structure that is oriented towards goods that have growing export demand and are high value-added. Pakistan's export structure meets neither of these two conditions.

After five decades, Pakistan's predominant industry (textiles), is (apart from a few exceptions) still predominantly exporting at the low value-added, low price end of the textile spectrum and in a world market where the share of low value-added textile industry in the global aggregate demand is declining. Consequently, Pakistan continues to suffer from declining terms of trade, which means that it has to export a larger and larger *volume* of goods to earn the same *amount* of foreign exchange. Thus without a change in Pakistan's export structure the growth of foreign exchange earnings cannot be expected to keep pace with the import expenditures necessary for high GDP growth. The increase in the trade deficit over which the State Bank has already expressed concern is therefore not a short-term phenomenon (SBP, 2006)⁸. Balance of payments pressures constitute an endemic constraint to sustaining high GDP growth as Pakistan's economic history over five decades has shown (A. Hussain, 2004)⁹.

I.1.5 *Social and Economic Infrastructure*

GDP growth and the underlying investment rate cannot be sustained unless there is adequate and high quality infrastructure. This includes adequate water reservoirs and an efficient irrigation delivery system, transport and communications infrastructure, a highly trained labour force, high quality universities and research. The question is, does Pakistan have the investment capability to undertake such infrastructure projects so vital to sustain growth. Equally important, does Pakistan have the polity and governance capability to establish the institutional framework for translating finance into concrete outcomes in the field of infrastructure?

At this stage, it is also important to recall that the present growth spurt comes on the heels of a decade of slow growth in the 1990s, caused mainly by external resource constraints and exogenous shocks. There is virtual consensus that the geopolitical developments of 9/11 were instrumental in relieving the external resource constraints that enabled this growth spurt to take place.¹⁰ The importance of external resource constraints in growth sustainability becomes apparent in the perspective of Pakistan's post-independence history. As we have seen in the preceding chapter, in each of the high growth periods,

growth has been made possible by large foreign financial inflows (the Ayub period, 1958-68, the Zia ul Haq period, 1977-88, and the Musharraf period, 1999-2007).

I.2. The Nature and Sources of GDP Growth: 1999-2007

In this section, we will first briefly discuss some of the salient macroeconomic indicators. The dividing line is pre- and post-9/11 performance of the economy, presented in Table 1. As we see in the table, GDP growth rates trebled in the immediate aftermath of 9/11. The increase in remittances, the decline in the debt burden, and the increase in foreign exchange reserves are also symptomatic of liquidity pouring into Pakistan which in turn reduced the foreign exchange and the fiscal constraints that had plagued the Pakistani economy through most of the 1990s. What is also important to note is that this growth spurt has managed to overheat the economy, manifested in high rates of inflation. Food inflation in particular has been much higher in the last two years compared to its trend rate. Although investment growth has been high, it has not kept pace, in real terms, with GDP growth, thereby reducing the investment rate and hence constraining the prospects of sustaining growth in the future.

In order to further examine the issue of sustainability of this growth regime, we will first conduct a preliminary analysis of sources of growth in order to see the sectors that have been at the forefront in generating growth and the prospects of these sectors to sustain this forward momentum. We will then analyze Pakistan's external balances with a view to growth sustainability.

I.2.1 Sources of Growth: Non-sustainability and Anti-poor Bias

Our analysis shows that the main sources of growth during the Musharraf period were the services sector (particularly banking and communication), manufacture of automobiles, electronics, luxury consumer durables and textiles. These sectors produce goods and services for the high income strata of society and their production requires capital intensive techniques and highly trained manpower. Consequently, these sectors neither produce for the poor nor generate employment for them. Thus economic growth based on

these sources is pro-rich rather than pro-poor. At the same time, the evidence suggests that the very sectors which have fueled growth over this period have in the last two years begun to slow down, thereby casting doubt on the sustainability of GDP growth through these sources. Let us now briefly discuss each of the services and manufacturing industries that constitute the sources of GDP growth in the period 1999-2007.

As we see in Figure 1, the present growth spurt has been mainly induced by the non-commodity, i.e. the service sector. Roughly 80% of the growth in this period has come from the service sector (see Figure 1). If the commodity producing sectors are not the main drivers of growth, can we expect the service sector to sustain growth over time? To answer this question, it will be pertinent to look at a disaggregated picture of sources of growth within the services sector.

Theoretically, growth in the service sector is a function of growth in the commodity producing sectors as well as that of international trade. Its contribution to overall growth will therefore be dependent on these factors. However, recent technological developments, particularly in the communication, computer software and data processing industries, have created technology-intensive segments to the service sector that can grow autonomously of other sectors.

Figure 2 gives a disaggregated picture of the sources of growth in the service sector. The wholesale and retail trade, social and community services, finance, and transport and communication sectors in that order have contributed to growth in the service sector. Community and social services include elements such as provision of health, education and other welfare facilities. Growth in this sector will be a function of growth in population, public expenditure on the social sectors and increasing private consumption. This sector is expected to grow simply because of the inelastic demand for these services on the one hand and the high population growth rates in Pakistan on the other. This is not a sector, however, that can act as an 'engine of growth'.

Two areas that have been conspicuous in their growth performance have been banking and communication. Growth in the banking sector has essentially been driven by external

resource inflows since 9/11 and to some extent by the privatization of two of the largest state-owned banks.¹¹ While we will explore the quantum of the resource inflows in the next section, growth in this sector has been a result of the increasing profitability of the banking sector, including that of the central bank. A major reason behind the high profit rates for the banking sector is the high spread between lending and deposit rates. The central bank's profits have been achieved because of exceptionally high foreign exchange inflows and a stable currency.¹² We have already seen deceleration in the growth of the banking sector in FY 2007 due to high interest rates and increasing pressures on the current account balance. As foreign resource inflows recede and global liquidity problems increase, profitability is expected to decline further.

The share of transport and communications is roughly 13% of the growth in the service sector. Growth in the transport sector will depend in the near future on the price of oil and on the performance of the commodity producing sectors as well as growth in international trade.

The communications sector has seen significant growth over the last five years. This is driven in large part by the expansion of the mobile telephone sector. After having grown exponentially from FY 2002 to FY 2005, growth in this sector has flattened out because of "saturation in the telecom sector." (SBP, 2007)¹³.

It is clear from the above that the sustainability of growth in the service sector is dependent on growth in the commodity producing sectors and international trade.

Traditionally, the industrial sector has been regarded as the engine of growth in an economy. The potential for absorbing new technologies and productivity growth has been seen as the highest in this sector (Weiss, 1984)¹⁴. In Figure 1, we see that industry as a whole has contributed 30.4% to growth in the period. Manufacturing is the largest contributor to growth within the industrial sector (Figure 3). As we see in Figure 3, large scale and small scale manufacturing together have contributed roughly 87% of the growth in the sector.

Growth in large scale manufacturing has averaged a healthy 16.1% over the 2002-07 period. However, after having peaked at 19.9% in FY 2005, there has been a deceleration over the last two years. It has been argued elsewhere that the high growth rates were essentially a result of better capacity utilization and not necessarily the result of new investment and diversification in the manufacturing sector (Sayeed and Nadvi, 2003)¹⁵. In addition to this, according to the State Bank this deceleration is symptomatic of “a broad moderation in external and domestic demand as well as capacity constraints in some industries” (SBP, 2007)¹⁶.

Pakistan’s manufacturing base continues to remain extremely narrow. The bulk of the value added in the sector is concentrated in the textiles and food and beverage sectors. In recent years, the automobile and cement sectors have demonstrated high growth rates. Growth in the automobile sector was spurred by banks diversifying into consumer banking and the low interest regime that prevailed in the immediate aftermath of 9/11. Once interest rates increased and demand slowed down, growth in the sector decelerated. Growth in the cement sector has been spurred by a recent increase in public sector spending as well as increasing export potential. In fact, growth in the construction industry has generally been high. So long as public expenditure remains high (which in turn is a function of the budget deficit remaining in control), the construction industry along with the cement sector is expected to grow.

The textile sector – which has been the engine of growth in Pakistan – has suffered a setback since the end of the MFA regime. Because of the high cost of doing business and the lack of appropriately trained labour, its competitiveness has eroded relative to other countries such as China and Vietnam.

On the whole, the manufacturing sector continues to suffer from a lack of diversification, which is rooted in the rent-based form of governance and economic elite (see Chapter 2 for a more detailed discussion). This in turn has led to overinvestment in certain sectors, such as textiles and automobiles, and virtually no investment in technology-intensive sectors that have the potential of creating dynamic comparative advantage over time.

The 'Industry' classification also includes electricity and gas distribution. This sector has registered negative growth rates in four of the last five years and its share in growth, as we see in Figure 3, has been negative. The biggest bottleneck in this regard has been virtual stagnation over the last eight years in installed capacity in electricity generation. Between 1999 and 2007, installed capacity in electricity generation has increased from 17399MW to 19450MW. By comparison, in the preceding period from 1990-99, the installed capacity increased from 8778MW in 1990 to 17399MW in 1999¹⁷.

The failure of the Musharraf government to invest in electrical energy is a significant structural constraint to the sustainability of the present growth spurt. It is also an important element in increasing the cost of doing business for the industrial sector and in eroding its competitiveness. At the same time, the high cost of electricity (which is a major input into production) is an important factor underlying high inflation rates and in eroding the real income of the poor. Thus the failure to achieve an adequate expansion in electricity generation has adversely affected both the sustainability of growth as well as the real incomes of the poor.

1.2.2 Balance of Payments Pressures as a Constraint to Growth Sustainability

Given the historical evidence discussed in the beginning, the biggest vulnerability to growth regimes in Pakistan has been caused when foreign resource inflows have come under stress. Although until FY 2007 Pakistan enjoyed positive net resource inflows either through the current or the capital accounts, as we see in Table 2, until FY 2004 it was the current account that was creating the surplus whereas since FY 2007 the source for positive net resource inflows has been the capital account.

Initially, resource inflows were mainly coming through current transfers and worker remittances in the current account. Current transfers accounted for official transfers, cash grants, private donations and unclassified private transfers. This is where much of the foreign non-project assistance and budgetary support grants are to be accounted for¹⁸. As we see in Table 2, workers remittances took a dip after 9/11 but have steadily grown ever

since. One important reason for the growth of remittances is because of the stability of the exchange rate, which in turn is possible because of the positive balance in net resource inflows.

However, since FY 2005 the current account balance has not only become negative once again but its growth has been exponential. The main contributor in this regard is the exceptionally high level of trade deficit. This in turn is a result of a significant deceleration in export growth – particularly in FY 2007 – as well as high growth in imports. While import growth has been contained somewhat in FY 2007, its high rate has been as much to do with capital imports as imports of consumer goods – mostly motor vehicles and mobile phones. If imports are geared towards capital goods, they will contribute to growth, but if they are for consumption it will cause a net foreign exchange outflow. Causes for the slack in export growth have already been mentioned when discussing deceleration in the textile sector. Moreover, the fact that two thirds of Pakistan's exports are textile based, points to the failure of export diversification in an increasingly competitive international market. The liquidity and fiscal space that Pakistan acquired arguably has not been used for diversifying the country's export base.

The service account shows a similar trend of running high deficits in the last three years. The other element which displays an adverse trend, particularly in FY 2007, is a significant increase in the income deficit. According to the State Bank (SBP, 2007, pp 128-30)¹⁹ this is mainly due to interest payments on the recently issued Eurobonds, remittance of profits and dividends and interest on foreign currency loans. Increasing liberalization of the economy and FDI in non-tradeable sectors are essentially responsible for this increase in the income deficit.

In the past, Pakistan's current account deficit would soar because of high levels of interest payments on foreign debt and low remittances. Although the large foreign inflows following 9/11 have managed to turn around that situation, there has been a failure to contain the trade deficit.

The high levels of current account deficits in recent years have been adequately compensated by sufficient net inflows in the capital account. As we see in Table 3, the most important contributor in this regard has been high levels of foreign investment in both its direct form (FDI) and well as through portfolio investment. While this indicates a positive perception about Pakistan by international investors, the sustainability of these inflows as well as externalities emanating from them will determine whether these inflows will continue to provide the cushion to an adverse current account situation. The worsening law and order situation and political instability (see last section) may have an adverse effect on foreign investment. Consequently, the existing adverse current account position is likely to worsen in the future.

From FY 2003 to FY 2005 the FDI that Pakistan attracted was primarily for the purpose of privatization and therefore the bulk of these inflows did not create any new assets. Since most of these public sector entities (including two of the largest commercial banks in the country, the state telecom company, an electricity utility in Karachi, and the National Refinery, amongst others) had excess employment, privatization has also resulted in contributing to unemployment. In terms of the external balance, however, the biggest damage that such FDI does over the medium-term is that it indirectly contributes to higher foreign exchange liabilities in the form of repatriation of profits and dividends. Since FY 2005, the trend has continued in a slightly modified form. Rather than privatization, it is mergers and acquisitions in the private sector that have driven FDI. In FY 2007 alone, 30.9% of FDI has come in the form of mergers and acquisitions (SBP, 2007, p 136). Moreover, only 2.2% of the FDI in the year has come into tradeables which have the capacity to earn foreign exchange in the future.

Portfolio investment, on the other hand, has been called ‘hot money’, and comes in and goes out fast. With the current geopolitical and domestic political crisis that Pakistan is confronting, the prospect of significant outflows from this account remains imminent.

The above analysis shows that the present high GDP growth is neither sustainable nor pro-poor. The observed recent growth spurt is in many ways similar to the ones

experienced by the country before. It is driven by foreign resource inflows. Apart from the underlying structural constraints to GDP growth (see Section 1.1 of this chapter), this growth spurt is vulnerable to economic and political exogenous shocks through a worsening foreign resource balance. This has become apparent in the last year or so. In the economy as a whole, we saw earlier that growth is mainly being driven by the service sector. Within the service sector itself, there is no autonomous engine of growth as such. Rather, much of the growth is an outcome of developments in the commodity producing sectors and in international trade. The fact that the manufacturing sector has not been restructured to meet the challenges of an increasingly competitive globalized international economy has left the sector vulnerable. Consequently the observed slowdown in the growth of the large scale manufacturing sector is likely to adversely affect the service sector and the sustainability of overall GDP growth. Lack of prioritization in infrastructure development – most importantly in the energy sector – at a time when liquidity constraints were low is another element that constrains the sustainability of GDP growth.

The structure and composition of GDP growth during the Musharraf period - far from being pro-poor - has in fact been anti-poor. This becomes apparent from our sources of growth analysis which shows that GDP growth during this period has been primarily constituted by the services sector (mainly banking and telecommunications) on the one hand and by luxury consumer durables (automobiles and consumer electronics) and textiles on the other. Construction is the only high growth sector which is labour intensive and can provide employment to the poor. Most of the GDP growth therefore has been achieved on the basis of goods and services which are not consumed by the poor and whose production does not generate employment for them. Thus the composition of growth analysis would suggest that growth during this period is not likely to have had a substantial positive impact on poverty reduction.

II. POVERTY, INFLATION AND UNEMPLOYMENT

In this section we will examine the question of the actual extent of poverty reduction during the Musharraf government and indicate the trends in inflation and employment.

II.1 The Question of Poverty Reduction

Estimates of consumption/income poverty, particularly the headcount ratio of poverty, have assumed a prominent place in the overall policy debate in Pakistan. This has been a positive development from a pro-poor policy viewpoint, because governments have opened up regarding their performance vis-à-vis poverty trends. One unintended consequence is that poverty numbers and trends have acquired propaganda value, and become controversial.²⁰

II.1.1 *The Data Set*

Official estimates of poverty are based on household survey data. For the period under question, three sets of household budget surveys – in 1998-99, 2000-01 and 2004-05 – are relevant. All of these are nationally (and provincially) representative sample surveys carried out by the Federal Bureau of Statistics (FBS). The first two are successive rounds of the Pakistan Integrated Household Survey (PIHS), while the last one is the Pakistan Social and Living Standards Measurement Survey (PSLM). The PSLM is designed to be statistically representative at the district level. A sub-sample of the PSLM households constitutes a consumption/income module identical to the PIHS. While some results of the 2005-06 round of the PSLM have been published, the 2004-05 PSLM is the most recent one available for the analysis of consumption/income poverty.

II.1.2 *The Government Claim*

The government has made much of its claims that the headcount ratio of poverty in Pakistan declined by over 10 percentage points, from 34 percent to 24 percent, between 2000-01 and 2004-05.²¹ These figures are based on estimates produced by the Planning Commission. The story of rapid poverty decline fits well with the overall image of sound economic management and high growth rates since around 2002. The political value of the message is unmistakable. The early reforms between 1999 and 2002, it has been argued, were painful but necessary, and they yielded rich rewards in the post-2002 period in the shape of high growth rates and rapid poverty decline. If true, a 10 percentage point decline in the headcount ratio would mean that almost one third of Pakistan's poverty

problem has been eliminated within a period of four years. This would be a remarkable achievement indeed, particularly in view of the fact that GDP growth during this period was biased against the poor in terms of its structure and composition (see Section II.1).

II.1.3 *World Bank Estimates*

The magnitude of change in the incidence of poverty critically depends on two factors:

- (1) The inflation rate used as a deflator to estimate changes in the consumption over time at constant prices.
- (2) The base year used for comparison at two points in time.

Since the poverty data had become controversial for a number of reasons, the government invited a panel of foreign analysts led by the World Bank to comment upon and validate its results. The World Bank published its findings in a technical note which concluded that the government's estimates could be replicated using the same methodology – that is, the official figures were true to the methodology used. The report pointed out, however, that the methodology adopted by the Planning Commission was faulty. The main issue was the choice of price index used in order to update poverty lines between survey years. The Planning Commission had used CPI inflation whereas the World Bank staff recommended using prices collected in the survey itself. While the CPI showed price inflation of 21 percent between 2000-01 and 2004-05, survey prices in the latter year were 29 percent higher than the base year.²²

Table 2.2 gives the headcount for 1998-99, 2001-02 and 2004-05 respectively produced by the Planning Commission and the World Bank. The World Bank methodology yields a more modest but still substantial 5 percentage point decline in the headcount ratio between 2000-01 and 2004-05.

II.1.4 *The Problem with the Sindh Sub-sample*

The World Bank technical note does not comment on the quality and comparability of the data. Closer examination of the data, however, raises concerns about the consistency of

the Sindh sub-sample across survey years. World Bank estimates show that the headcount ratio for the Sindh sub-sample increased from 26 to 37 percent between 1998-99 and 2000-01, and then declined dramatically to 22 percent. In rural Sindh the headcount ratio dropped from 47 percent to 28 percent – a 19 percentage point drop. The crop sector, which forms the backbone of the rural Sindh economy, saw stagnation or decline between 2000-01 to 2003-04, and a bumper cotton crop in 2004-05.

Concerns about the consistency of the Sindh sub-sample across survey years are also highlighted by the fact that literacy rates of the 15 plus age group for the sub-sample fell from 49 to 45 percent between 1998-99 and 2000-01 before rising to 54 percent in 2004-05. Although rapid changes in school enrolments can take place, it is difficult to imagine a scenario that would result in such volatility (both downwards and upwards) in adult literacy. This casts doubts on the veracity of the Sindh sub-sample data in the all Pakistan data set.

II.1.5 *Corrected Estimates of Poverty*

If the headcount ratios estimated by the World Bank team are recalculated for Pakistan excluding Sindh, the change over time turns out to be even less dramatic. Excluding Sindh, the headcount ratio of poverty in Pakistan went up from 31.3 percent to 32.1 percent between 1998-99 and 2000-01, and then declined to 30.7 percent in 2004-05. The increase in the former period is consistent with the economic slowdown and the effects of drought. Since comparing a drought year (2000-01) to a good harvest year (2004-05), will clearly exaggerate the poverty reduction, it is more appropriate to compare the year 1998-99 with the year 2004-05. *We accordingly find that for the period as a whole, poverty declined from 31.3 percent in 1998-99 to 30.7 percent in 2004-05. This means only a 0.6 percentage point reduction over the six year period. Thus poverty has not declined significantly over the period 1998-99 to 2004-05.* This is consistent with the pro-rich nature of the growth process and the increasing income inequality over the period.

Talat Anwar in a recent study, has shown that even if we include the erroneous Sindh sub-sample data (with its huge poverty decline), the overall reduction in poverty over the period is still quite small. He has argued that the dramatic poverty reduction claimed by the government is based on an incorrect inflation rate which artificially exaggerates the magnitude of the poverty reduction. He points out that the government's estimate of the inflation rate is based on the consumer price index (CPI), whose coverage is limited to only 16 urban centers, and therefore the changes in prices as measured by the CPI do not truly reflect changes in the prices of commodities used by households, particularly in the rural areas where the majority of the poor reside. Anwar takes account of price inflation using prevailing consumption patterns of representative households in rural and urban areas across provinces and combines both food and non-food needs to derive more accurate inflation rates as a means for arriving at more consistent estimates of changes in poverty over time. His estimates show that the incidence of poverty using household survey data for Pakistan as a whole, declined from 31.1 percent in 1998-99 to 29.3 percent in 2004-05. (Talat Anwar, 2006)²³. This means a poverty decline over the period 1998-99 to 2004-05 of 1.8 percentage points, which again suggests that poverty reduction has been quite small. While more work doubtless needs to be done to investigate issues of sample consistency and price information, the more cautious results appear more in line with other economic data.

It is quite likely that poverty data after 2004-05 will show more rapid declines in the headcount ratio. GDP growth rates increased steadily from two percent in 2000-01 to nine percent in 2004-05, before declining to around seven percent in the following years. Unemployment and headcount ratios are level variables, and the impact of growth is always felt with a time lag. It is not entirely surprising that the growth rate and the rate of unemployment both peaked in 2004-05, or that corrected headcount ratio estimates do not show a large decline between 2000-01 and 2004-05. Data on wages, which are available more quickly than either employment or poverty numbers, do suggest that the last two years (from 2005-06 onwards) witnessed a rapid rise in real wages. Overstating the case for poverty reduction based on 2004-05 data obscures the nature of the linkage between growth and poverty reduction in Pakistan.

II.2 Inflation and Relative Prices

While economic growth and relative labour market tightening appear not to have improved the bargaining power of workers, there is growing evidence of uncompetitive practices in other markets. Overall price inflation declined steadily from around 13 percent in the early 1990s to around three percent in 1990-2000. Inflation remained at these historically low rates until 2003-04 when it started to rise, ending up at around eight percent in 2006-07. Inflation in Pakistan, like other countries, is partly the result of macroeconomic choices and constraints and external conditions, and partly due to sectoral issues.

The balance of these factors determines not only the overall rate of inflation, but also the movement in relative prices. Prices of various groups of commodities and services are reported in the official time series data. Data are reported for ten broad groups of commodities and services: food, clothing, energy, housing rent, household furniture and accessories, transport, entertainment, education, personal care, and medical expenses. There is a discernible difference in the pattern of inflation in the 1990s and in the period since 2000. The earlier period witnessed a relatively narrow range of movement of relative prices across commodity and service groups. Between 2000-01 and 2006-07, however, some categories (food, housing rent and energy) experienced far higher rates of price inflation compared with the other groups.

Three non-exclusive hypotheses can be suggested for the differences in the patterns of inflation between the 1990s and the 2000s. First, world prices of some commodities changed more than others. This is clearly true of energy prices, which in Pakistan are closely correlated with world oil prices. The same might also be true of some food commodities.

Second, there were changes in the regulatory framework in which various markets functioned. It is accepted that there was a greater degree of transmission of energy price increases to the consumers in the latter period, as Pakistan complied more stringently with energy price reforms. There were charges too that energy companies enjoyed

windfall gains at the expense of consumers due to favourable government policies regarding pricing. Food price inflation also appeared to have a regulatory dimension. There were conspicuous episodes of price hikes of essential foods, particularly non-perishables such as wheat-flour, sugar, edible oils, and also some perishable items, that were ascribed to cartel activities. In fact, the central bank became so concerned about such price manipulation that it issued advisories to lending banks to restrict lending for the purposes of trade in some food commodities.

Thirdly, there were specific changes in the pattern of economic growth that led to changes in domestic relative prices. The post 9/11 economic scenario witnessed large increases in the private inflows of foreign exchange into Pakistan. This was partly due to increased perceptions of risk to assets held abroad, by overseas as well as resident Pakistanis. Part of the inflow was due to the greater liquidity enjoyed by neighbouring oil exporting countries – and cash-rich investors from those countries seeking opportunities in Pakistan and other similar countries. These cash inflows were directed largely into the real estate and capital markets. Since the housing rental market is generally thought to shadow the property market, the higher rate of rent inflation is partly a reflection of the specific conditions that emerged in the regional and domestic economy after 9/11.

During this period the high inflation rates, particularly food inflation, has had a relatively greater adverse effect on the real incomes of the poor compared to the rich, thereby accentuating income inequality and making GDP growth even more anti-poor.

II.3 Labour and Employment

For economic growth to have a pro-poor impact, two labour market linkages are critical. First, it must lead to a reduction in unemployment and underemployment rates and the expansion of productive and well-remunerated jobs. Second, the real wages of workers, particularly at the lower end of the labour market, must rise. In developing economies without well established social security systems, the poorest segments of the workforce cannot afford to remain unemployed.²⁴ Pro-poor growth would lower unemployment rates, but also create more high quality jobs, and increase the reservation wage for unskilled workers.

The Labour Force Survey (LFS) is the main source of data on labour market trends. LFS data show that labour force participation rates have been increasing steadily over the last two decades, with a relatively sharp rise between 2003-04 and 2005-06. Unemployment rates have risen from 3.1 percent in 1990 to 8.3 percent in 2003-04 before declining to 6.2 percent in 2005-06. There is evidence of tightening in the labour market in the most recent period when the economy experienced high rates of growth. It is worth noting, however, that the unemployment rate in 2005-06 was still higher than it was in 1999.

The ratio of agriculture declined from over 47 percent in 1999 to around 43 percent in the current period. Since agriculture often conceals a good measure of underemployment it is possible that the exit from agriculture marks some reduction in underemployment. Manufacturing accounted for much of the exit from agriculture in this period, and its contribution to overall employment increased from 10.2 percent in 1999 to 13.9 percent in 2006.

Tightening of labour markets could also be seen from the trend in real wages of unskilled construction workers (Figure 2.1). Real wages increased slowly over the 1990s but then declined after 2000-01.²⁵ They rose sharply by 17 percent in 2005-06, and then again by 15 percent in the following year, outpacing the rate of economic growth in these two years. These last two years coincide with massive increases in public sector outlays for

infrastructure development, and hence increased rates of activity in the construction sector. There was a marginal increase also in the proportion of the workforce in construction from 5.8 percent in 2003 to 6.1 percent in 2005.²⁶

What was surprising in the labour market, however, was that the proportion of formal sector jobs actually declined between 2003-04 and 2005-06 from 17.1 to 15.3 percent. The erosion of formal sector jobs alongside high rates of macroeconomic growth and evidence of labour market tightening implies that growth is not, at least as yet, premised upon the creation of durable high quality jobs.

III. EDUCATION AND HEALTH

As we have seen in the preceding sections, given the structure of the growth process, in spite of high GDP growth during the period a substantial reduction in poverty and unemployment could not be achieved. While livelihoods and income levels are critical to improving the economic conditions of people, the coverage and quality of health and education facilities are also important for improving their economic conditions. In this section we will examine trends in education and health to indicate the extent to which the growth process during this period led to human development.

Educational outcomes in Pakistan are measured using literacy and enrolment rates. The most commonly used nationally representative source is the PIHS data. For the most recent year (2004-2005) for which data are available the relevant source is the PSLM.

These data (reported in Table 2.3) show a declining or stagnant trend for both male and female primary enrolment from 1991 until 2001-2002, and sharp increases in enrolment between 2001-2002 and 2004-2005. The PSLM sample for education data was some five times as large as the PIHS samples, and it is possible that the PSLM provides a more accurate picture of literacy and enrolment than the PIHS. A number of positive policy changes might be responsible for the increase in enrolment. Some of the provincial governments introduced incentives such as free textbooks and stipends (for female

students) in order to encourage enrolment and retention. There has also been a rise in the availability of low-cost private schooling facilities over the last ten years or so.²⁷

The increase in enrolment rates after a period of stagnation and decline is encouraging. For this increase to be sustainable there will be a need to give priority to the quality of schooling. There is wide acknowledgement that the quality of schooling has undergone a steady decline.²⁸

Aspects of Pakistan's education system have attracted the interest and attention of the international community from a security point of view. Legislation in the United States, for example, links future assistance to Pakistan to reforms in the education sector. Although some religious and cleric-run educational establishments in Pakistan have been suspected of involvement in terrorist activities, the exclusive focus on the security angle is unwarranted. Cleric-run schools (*madrassahs*) account for less than 5 percent of total enrolment,²⁹ and a majority of these schools are not engaged in violent or unlawful activities. The key issue for *madrassah* reform is not that dissimilar for the reform of the broader educational system – namely quality and equity.

The health outcomes reported in the World Development Indicators are based on the same data that have been reported in various United Nations sources – notably UNDP and UNICEF reports and databases. Within Pakistan the Mahbub ul Haq Human Development Centre collates and publishes comparable cross-country data on health outcomes in South Asia. The primary sources for these data are government official sources, principally the Pakistan Demographic Survey (PDS) and its successor module in the PSLM.

Health outcomes measured in terms of infant and child mortality have experienced steady improvement over long periods of time (Tables 2.4 and 2.5). The Infant Mortality Rate (IMR) was 139 deaths per 1,000 live births in 1960, and virtually halved to 79 in 2005. Similar rates of improvement were recorded for the child mortality rate between 1970 and 2005.

Comparison with other countries of the South Asia region indicates, however, that Pakistan has lagged behind its neighbours in the rate of change. While in 1960 Pakistan's IMR was somewhat better than the weighted average for South Asia as a whole, in 2005 it was much worse. India, Bangladesh and Nepal have overtaken Pakistan in this period. For child mortality Pakistan's record was similarly poor – having been second only to Sri Lanka in 1970, which was the worst performer in the region in 2005.

IV. INSTITUTIONAL INSTABILITY, POWER STRUCTURE AND THE CRISIS OF STATE AUTHORITY

IV.1 Economic Policy and Institutional Structure

Pakistan's economy went through two distinct phases in the period since 1999. In the first period, economic management was focused on stabilization at the expense of growth. Stabilization was achieved and growth rates remained low. Inflation, which had been on a declining trend since the early 1990s, was brought under further control. Unemployment rates rose rapidly, and there was evidence of a rise in the headcount ratio of poverty. In the period from around 2002 onwards the country received large foreign exchange inflows from public as well as private sources. Growth rates picked up, public investment increased, unemployment rates declined, and so did poverty. Quite soon high rates of inflation had returned and so had high budget deficits and pressures on the balance of payments. The reappearance of these features is symptomatic of the underlying structural constraints to stable growth. They also signify the limited and transient efficacy of a donor driven "policy reform" within a limited access social order.

While economic managers made much of the effects of economic reforms – which consisted of fiscal tightening in the early period, along with greater liberalization, deregulation and privatization, the structural constraints to sustainable growth with equity were not addressed (see Chapter 1, Section II, for details of the structural constraints). The inability to address the structural constraints was due not simply to an inadequacy of economic policy: It was located in the institutional framework of governance and the

underlying structure of power which conditions the design and implementation of policy and the functioning of the economy.

IV.2 Power Structure, Institutional Instability and the Crisis of State Authority

IV.2.1 Power Structure, Conflict and the new Political Structure

The coup d'état which had brought General Musharraf into power in October, 1999, had occurred on the crest of a contention for supremacy within the power structure between an elected civilian government and the military (see Chapter 2, Section VI). The institutional imbalance wherein the judiciary lacked independence enabled General Musharraf to get a verdict from the Supreme Court validating his unconstitutional military intervention. Imbalance within the institutional structure between the judiciary, legislature and the executive emanated partly from the tendency of the military to dominate the government with scant regard for institutional balance, and partly from the proclivity of elected civilian governments to undermine judicial independence (see Chapter 2, Section VI). Both tendencies arose because of the absence of informal norms which would induce the various protagonists to exercise their power within the formal constraints of the constitution. The consequent institutional instability was illustrated in the grounds of validation by the Supreme Court of the new military government: With reference to the preceding civilian government of Prime Minister Nawaz Sharif the Supreme Court declared that "...there was no real democracy because the country was by and large under one man rule..." and that "...democratic institutions were not functioning in accordance with the provisions of the constitution..."³⁰. It was this institutional imbalance that was to once again result in conflict in March, 2007 after a brief period of stable government.

As General Musharraf embarked on constructing a new political edifice he simultaneously acquired the offices of Army Chief and President. This metaphor of the dual office signified the dominance of the military not only in the power structure but in the institutional framework of governance. Furthermore he created the National Security Council (in which the heads of Army, Navy and Air Force were permanent members).

The NSC was another indicator of the institutionalization of the military's role in governance. In earlier years national security policy was conducted by the Defence Committee of the Cabinet, which was headed by the elected Prime Minister and in whose meetings Service Chiefs attended by invitation. By contrast the NSC now superseded the Defence Committee and became the supreme body for conducting national security policy. Since national security affairs covered a wide range of sectors in both foreign and domestic policy, the NSC effectively acquired oversight functions over the government.

In the October, 2002 elections the government engineered the exile of the leaders of the two mainstream moderate political parties, Ms. Benazir Bhutto of the PPP and Mr. Nawaz Sharif of the PML-N, and thereby constrained the prospects for success of these parties. By contrast the government facilitated the participation of the religious parties such as the JUI (F) and the Jamaat-e-Islami. The religious parties came together in an alliance (MMA) and were able to win the election in the NWFP and form the provincial government. In the center, the 'King's Party', the PML(Q), acquired a majority with the support of an ethnic party with strength in the major cities of Sindh. The federal government, through the support of the MMA, was able to pass the 17th amendment to the constitution. This amendment enabled General Musharraf to hold the dual offices of Army Chief and President for a limited period, and concentrated power in the office of the President rather than the Prime Minister as envisaged in the parliamentary democratic framework of the 1973 Constitution. Thus a new political structure was created within which the military acquired a dominant role and in which the role of the Prime Minister and the Parliament was restricted.

IV.2.2 The Search for Legitimacy: Security and the Economy

President General Musharraf sought legitimacy for his political structure through two strategic initiatives: (i) The decision to join the U.S.-led coalition in the "war against terror"; and (ii) Using the fiscal space afforded by this action, to achieve domestic political support through a strategy of "Growth with Poverty Reduction". Both these strategic initiatives were to meet with only limited success.

The MMA government in the NWFP which had been expected to politically defuse the burgeoning influence of militant extremists in fact began to provide a protective political umbrella to them. In a dramatic demonstration of their power and outreach the Taliban and Al Qaeda elements provided the military support to enable Abdul Aziz, the Khateeb of Lal Masjid (located in the heart of Islamabad) to convert the mosque into an armed fortress. From this redoubt Abdul Aziz and his gang of militants and madrassah students challenged the state: They gave an ultimatum to the federal government to impose Shariah law in Pakistan. At the same time, madrassah students from Lal Masjid formed vigilante groups and began to coerce and intimidate shopkeepers to stop selling CDs and videos and women to stop going to work, to cease driving and observe *purdah*. They also started kidnapping women who they thought were engaged in immoral activities and placed them in detention within the Lal Masjid compound. When security officials attempted to restrain this vigilante action a number of them were also kidnapped and imprisoned in the Lal Masjid. The government, after protracted negotiations with the Lal Masjid militants, finally launched a military operation against an enemy who turned out to be battle hardened, highly skilled and well equipped. They were defeated through the heroic action of Pakistan's elite commando group (SSG) from the 111 brigade. However, as the sound of automatic gun fire and explosions shook Islamabad and the battle was covered by world media, the militants were able to give a spectacular display of their military power and political outreach.

The Al Qaeda appear to have formed an alliance with the domestic Taliban, and have turned their attention to Pakistan. As the scale and intensity of their guerilla attacks increased they began to enlarge their territorial control over Pakistan's periphery first in the tribal belt of Waziristan and then in the settled towns of Swat and NWFP. They simultaneously began to launch suicide attacks against military personnel and installations as well as political leaders in the heartland of the country. These suicide attacks were apparently designed to demonstrate the outreach of Al Qaeda-Taliban and at the same time to undermine confidence in the ability of the government to protect its soldiers and citizens. The growing success of militant extremist groups who had emerged as rival powers to that of the state within its territorial domain, created a crisis of state authority.

The crisis of state authority reached a new level of severity and acquired a tragic dimension with the assassination of the charismatic Benazir Bhutto. She was a symbol of courage and the hope of successfully combating the militant threat within a democratic polity. Her assassination sparked sustained and widespread rioting across the country with a breakdown of law and order in a number of towns in the Sindh province. The crisis of state authority has deepened in three ways: (a) The ability of Al Qaeda-Taliban to kill the key political leaders they choose to target and to destabilize the country has been demonstrated dramatically; (b) The credibility of the state apparatus to provide security to the country's leadership and to maintain order has been further undermined; (c) The political structure constructed by President Musharraf within which elections were to be held and the war against Al Qaeda-Taliban was to be conducted, has been weakened to a critical level.

The economic strategy, as we have discussed in the preceding section, did achieve high rates of GDP growth. However the pro-rich nature of this growth was such that there was no significant reduction in poverty, and unemployment and inflation increased sharply over the period. There was growing income inequality. The rapidly rising inflation, particularly food inflation, accentuated the sense of deprivation for the lower income groups. Furthermore, the services of health and education that are crucial for the welfare of the poor could not reach adequate coverage or quality in the absence of adequate service delivery mechanisms (see Sections II and III). Thus the high GDP growth in the Musharraf period was perceived to have brought affluence to the few without benefiting the poor significantly. Consequently, just as the Musharraf government was celebrating the success of its economic policies, there was growing resentment amongst the middle classes and the poor, as in the time at the end of the Ayub period (see Chapter 2, Section III).

As elections approached, an institutional crisis erupted in March, 2007, following the attempt by President Musharraf to remove Chief Justice Iftikhar Chaudhry from his office in order to secure a second term for himself. There was an unprecedented citizens' protest movement led by lawyers. It culminated in the reinstatement of the Chief Justice by the judiciary on July 20, 2007, following a historic assertion of independence by a battered

judiciary (for an analysis of the political economy of the citizens' movement, see Chapter 1). However, the success of the citizens and the judiciary in establishing the institutional balance envisaged in the constitution was short-lived. By the end of October, 2007, the government began to fear that the Supreme Court headed by Chief Justice Iftikhar Chaudhry was likely to give a judgment disqualifying General Musharraf from being a candidate for the presidential election. On November 3, 2007, Musharraf, in his position as Army Chief, issued a proclamation suspending the constitution, withdrawing fundamental rights of citizens and initiating draconian measures to gag the media³¹. At the same time, General Musharraf gave himself powers as President to amend the constitution by executive order. He subsequently modified the Army Act as a result of which civilians could be court marshaled with charges of sedition for offences such as expressing an opinion.

In a historic suo moto judgment the Supreme Court, on the day of the proclamation of the emergency, declared it unconstitutional and without legal effect. The judges of the Supreme Court were promptly sacked and placed under house arrest. As in March, once again the unconstitutional action of General Musharraf was met with countrywide protests by lawyers, journalists and small groups of citizens, including human rights activists, academics, professionals, and (for the first time in the citizens' movement), university and high school students.

General Musharraf established his political structure on the basis of an initial suspension of the constitution following the coup d'état of October, 1999. He dismantled the political structure through a second suspension of the constitution in November, 2007. The first suspension was triggered by a conflict with an elected civilian executive, while the second was triggered by a conflict with the judiciary. The recurrent suspension of the constitution dramatically demonstrates the disequilibrium within the power structure. While the military seeks to achieve preeminence within the power structure and dominance over governance, the constitution stipulates the subordination of the military to elected civilian authority. It is this incongruence between the formal rules of the constitution and the internal dynamics of the power structure that generates institutional instability: the recurrent conflict between the military, the executive and the judiciary.

Achieving institutional stability and enforcing the formal rules embodied in the constitution will require the establishment of the necessary informal norms (see Chapter 1, Sections III and IV). Such a change in the institutional *set* would be based on a political process in civil society through which a balance in the underlying power structure can be achieved.

CONCLUSION

In this chapter we have examined the polity to show that the conflict within the power structure and the associated institutional instability that characterized the preceding periods reached a climax during the Musharraf government. As the conflict between the executive and the judiciary intensified, the government in its attempt at political survival undertook repressive policies against the democratic opposition in civil society. Amidst these conflicts within the polity, the Al Qaeda and Taliban forces intensified their military campaign against Pakistan to emerge as rival powers to that of the state within its territorial domain.

In our analysis of the economy in this chapter, we have identified the strategic parameters of growth to suggest that with the existing structural constraints, high GDP growth may not be sustainable in the future. We have also examined the poverty data and shown that when corrections are made in the official poverty figures for biases in the base year selection and inflation rate estimates, it is apparent that contrary to official claims, there has been no significant poverty reduction. We have also analyzed the sources of GDP growth during the period to show that growth during this period was pro-rich and therefore unlikely to have substantially reduced poverty.

President General Musharraf sought to stabilize his military dominated political government by attempting to restore law and order on the one hand and achieving economic development on the other. Both these attempts met with inadequate success. While the law and order situation worsened a relatively high GDP growth rate was achieved. However our analysis shows that the high GDP growth rate failed to translate into a substantial reduction in poverty or improvement in the provision of basic services. On the other hand high rates of inflation, growing unemployment, and shortages of basic

items such as wheat, gas and electricity have combined to weaken his political structure. At the same time, growing balance of payments pressures and declining foreign investment associated with the deteriorating law and order situation have raised questions about the sustainability of the high GDP growth achieved during his government.

Pakistan's moment of crisis is pregnant with the potential of charting a new path to development whereby the structural instability in both the polity and the economy can be addressed in an integrated process leading to a stable democratic constitutional order on the one hand and sustained development on the other. We attempt to present a policy framework for such a path to development in the next chapter.

TABLE 1**MACROECONOMIC INDICATORS**

	FY00-02	FY03-07
GDP (fc) % Growth	2.54	6.96
Inflation (%)	3.84	6.41
<i>Food</i>	<i>2.74</i>	<i>7.71</i>
<i>Core</i>	<i>3.57</i>	<i>5.14</i>
Investment as % of GDP	17.13	16.51
<i>Private</i>	<i>11.51</i>	<i>12.28</i>
<i>Public</i>	<i>6.12</i>	<i>4.20</i>
<i>General Govt.</i>	<i>1.81</i>	<i>2.35</i>
Fiscal Deficit	4.67	3.60
Workers Remittance (\$ Billion)	1.13	3.84
Foreign Exchange Reserves (\$ Billion)	2.70	10.70
Unemployment Rate	6.60	7.52

Source: Economic Survey (2006-07) and State Bank of Pakistan (2006-07).

TABLE 2**CURRENT ACCOUNT BALANCE (2000-07)**

	2000	2001	2002	2003	2004	2005	2006	2007
Trade Balance	-1412	-1269	-294	-536	-1279	-4514	-8442	-9944
Services (Net)	-776	-981	-298	34	-1316	-3293	-4402	-4143
Income (Net)	-2018	-2161	-2319	2207	-2207	-2386	-2671	-3569
Current Transfers (Net)	3006	3650	3354	2500	2743	4491	5916	5068
Worker's Remittances	983	1087	2390	4237	3871	4168	4600	5494
Current Account Balance	-217	326	2833	4028	1812	-1534	-4999	-7094

Source: State Bank of Pakistan, *Annual Report* and *Economic Survey* (various issues).

Table 2.1 : Labour Force Trends

Mid Year (End June)	Labour Force Participation Rates (%)	Unemployed Rate (%)
1990	28.8	3.1
1991	28.0	6.2
1992	28.1	5.9
1993	27.9	4.7
1994	27.9	4.8
1995	27.5	5.4
1996	27.5	5.4
1997	28.7	6.1
1998	29.4	6.1
1999	29.4	6.1
2000	29.0	6.0
2001	29.0	6.0
2002	29.6	7.8
2003	29.6	7.8
2004	30.4	8.3
2005	30.4	7.7
2006	32.3	6.2

Source: Labour Force Surveys, various.

Figure 2.1: Trend in Real Wages of Unskilled Construction Workers

Table 2.3: Recent Education Trends

	1991 PIHS	1995-96 PIHS	1998-99 PIHS	2001-02 PIHS	2004-05 PSLM
Literacy Rate (age 10+) (%)					
Male	48	52	59	58	65
Female	21	26	31	32	40
Both	35	39	45	45	53
Net Primary Enrolment Rate (Excluding Katchi) age 5-9					
Male	53	49	47	46	56
Female	39	38	37	38	48
Both	46	44	42	42	52
Net Primary Enrolment Rate (Excluding Katchi) age 6-10					
Male		61	57	57	65
Female		45	43	45	55
Both		53	50	51	60

Source: PIHS reports (various), and PSLM report.

Table 2.4: Infant Mortality Rates – South Asia

	Infant Mortality (per 1000 live births)	
	1960	

Notes

- ¹ This section is drawn from Akmal Hussain, Is GDP Growth Sustainable, The Daily Times, May 1, 2006.
- ² D. Rodrik, "Growth Strategies," in *Handbook of Development Economics*, Vol. 1 Part 1, Phillipe Aghion and Steven Durlauf (eds), Elsevier, Holland, 2004.
- ³ See for example:

 Douglass C. North, (i) *Institutions, Institutional Change and Economic Performance*, Cambridge University Press, Cambridge 1990.

 (ii) *Structure and Change in Economic History*, W.W. Norton and Co., New York, 1981.

 (iii) *Understanding the Process of Economic Change*, Princeton University Press, Princeton, N.J., 2005.

 Douglass C. North and Robert P. Thomas, *The Rise of the Western World*, Cambridge University Press, Cambridge, 1973.

 Avner Greif, *Institutions and the Path to the Modern Economy, Lessons from Medieval Trade*, Cambridge University Press, Cambridge, 2006.
- ⁴ Avner Greif, op.cit., Part-III.
- ⁵ Douglass C. North, *Understanding the Process of Economic Change*, Princeton University Press, 2005, page 57.
- ⁶ State Bank of Pakistan Report 2006.
- ⁷ S.J. Burki, Pakistan's Growth Story, the Daily Dawn, March 28, 2006.
- ⁸ State Bank of Pakistan Report 2006.
- ⁹ Akmal Hussain, Institutions, Economic Structure and Poverty in Pakistan, South Asia Economic Journal, Volume 5, Number 1, January-June 2004, SAGE Publications, New Delhi.
- ¹⁰ For details on the manner in which 9/11 relieved the external resource constraints, see Sayeed and Gazdar (2003).
- ¹¹ These banks controlled roughly half of the commercial banking market share in Pakistan.
- ¹² All through the 1990s, the central bank was involved in buying dollars from the kerb market in order to stabilize the currency. This had resulted in significantly eroding the profitability of the central bank, amongst other factors.
- ¹³ State Bank of Pakistan Report 2007, page 32.
- ¹⁴ J. Weiss, *Industry in Developing Countries: Theory, Policy and Evidence*, Routledge, London, 1990.

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- ¹⁵ A. Sayeed and K. Nadvi, "Industrial Capital and Pro-poor Change," paper prepared for DFID Drivers of Change Project, (Mimeo), 2004.
- ¹⁶ State Bank of Pakistan Report 2007, page 25.
- ¹⁷ Figures taken from *Economic Survey, 2006-07*, Statistical Appendix, page 115.
- ¹⁸ The increase in FY 2006 and 2007 is mainly due to grants and donations that were received due to the earthquake of October, 2005.
- ¹⁹ State Bank of Pakistan Report 2007, pages 128-30.
- ²⁰ Much of the controversy has been triggered by the government's own actions. It was widely reported in the press that a previous Chief Economist of the Planning Commission was removed last year due to disagreements about poverty data. Before this, in 2003-2004, the government had courted unnecessary controversy by publishing poverty estimates based on non-standard methods of extrapolation and partial surveys.
- ²¹ Economic Survey 2006-07, page 55, and Poverty Reduction Strategy Paper Annual Progress Report 2006, page 6.
- ²² The World Bank technical note gave several reasons for using survey prices rather than CPI for inflation estimates. The key reason given was that CPI was constructed using urban prices, and the survey indicated that rural price inflation had been much higher. One further reason for sticking with survey prices is that consumption values are calculated using survey data on volume and price for a large group of commodities. In order to be consistent, therefore, the use of CPI for estimating price inflation would necessitate the use of CPI prices to convert survey volume observations into values.
- ²³ Talat Anwar, Measurement of Absolute Poverty and Governance in Pakistan: 1998-99 and 2004-05, paper presented in the PIDE-PSDE, 22nd Annual General Meeting and Conference, 19-21 December, 2006.
- ²⁴ The ILO has recognized this phenomenon under the "working poor" rubric. See Nomaan Majid: What is the Effect of Trade Openness on Wages?, Employment Strategy papers, Employment Analysis Unit, Employment Strategy Department, ILO, Geneva, 2004/18, pages 3, 10, 39.
- ²⁵ Real wages are computed using daily wage rates and the food price index provided in the Economic Survey 2006-7. The rise in real wages was even sharper in the last two years if CPI rather than the food price index is used.
- ²⁶ Labour Force Survey, various years, Federal Bureau of Statistics, Government of Pakistan (GOP), Islamabad.
- ²⁷ National Education Census 2005, Federal Bureau of Statistics, Government of Pakistan (GOP), Islamabad, 2005.
- ²⁸ This is acknowledged, for example, in the Ministry of Education's White Paper prepared by Javed Hassan Aly, as an approach to a new education policy (<http://www.moe.gov.pk/nepr/WhitePaper.pdf>).
- ²⁹ National Education Census 2005, op.cit.

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- ³⁰ Text of the Supreme Court Verdict in the Military Take-over Case published in the Daily Dawn, May 13, 2000, page 5.
- ³¹ See the Daily Times, November 4, 2007, page A4, for the texts of the Proclamation of Emergency, The Provisional Constitutional Order and the Press Ordinance respectively.

CHAPTER 4

POLICY FRAMEWORK FOR A PATH TO DEVELOPMENT

By

Akmal Hussain

INTRODUCTION: THE TRANSITION FROM UNDERDEVELOPMENT TO DEVELOPMENT

Social Orders, Institutional Change and the Challenge of Transition

North, et.al., have posited the concept of a social order composed of the economic and the political systems. They classify countries into two broad categories: underdeveloped countries are placed in the category of the “limited access social order” while developed countries belong to the “open access social order”. Limited access social orders are characterized by rent creation, privileged access over economic and political power for the elite, and the exclusion of a large proportion of citizens from equal access over markets, resources and political decision making. Consequently, North, et.al argue that limited access social orders “preclude thriving markets and long term economic development”. (North et.al., 2006). By contrast, open access orders provide equality of opportunity to access economic and political power on the basis of systematic competition, innovation, merit and mobility. Consequently, they argue that open access social orders are characterized by “thriving markets and long term economic development”. (North et.al., 2006).

One may propose then that the development challenge is to initiate a process of transition from a limited access social order to an open access social order. North, et.al. call this process of transition the “holy grail” of development economics. In this chapter we attempt to contribute to the design of a policy framework for initiating a transition that integrates changes in the spheres of the polity and economy for development. A more detailed economic policy framework for pro-poor growth is specified in Appendix I. This

strategy is designed to initiate a process through which the poor can become active subjects in development and, in overcoming their own poverty, can contribute to achieving higher and more equitable GDP growth. In Appendix I we also draw upon South Asian experiences of devolution reforms to suggest that if these reforms are to empower the poor, then further institutional changes are required to build systematic linkages between organizations of the poor and each tier of local government.

Democracy, Institutions and Development Policy

In the preceding chapters we have shown that Pakistan's economic growth is characterized by instability in its rate, inequality in its distribution and endemic mass poverty. These features are rooted in an institutional structure that excludes a large proportion of the population from both the process of economic growth as well as the political system. Furthermore, the institutions embody an incentive system that generates rents for exclusivist elites and restricts merit-based selection, competition, efficiency and innovation. Thus the incentive system prevents the emergence of the necessary conditions for sustained and equitable growth.

We have argued that this institutional structure is in turn shaped by an underlying power structure that is dominated by the military, but where the civilian elites vigorously contend for power. It is this conflict that creates disequilibrium within the power structure and which underlies the dynamics of institutional instability. The formal rules of the constitution stipulate a democratic polity. The constitution in fact envisages what North would call an "open access social order" (North et.al., 2006)¹, where all citizens have an equal opportunity to participate in the process of economic and political development. Accordingly, the constitution stipulates the subordination of the military to elected civilian authority. Yet the military is able to undertake repeated extra-constitutional interventions to establish its command over governance. We have argued that this instability in the formal rules of the constitution is due to the dominance of the military in the power structure on the one hand, and on the other, the lack of an enforcement mechanism in civil society. It is the informal norms and the awareness that these norms embody the core values of society that enables the enforcement of the formal institutional

structure, thereby giving it stability (see Chapter 1, Section III). The achievement of institutional stability therefore requires the development of the countervailing power of democratic organizations in civil society.

It is in moving towards a stable democratic constitutional order that Pakistan can create the institutional conditions for sustained and equitable growth. These conditions include opportunities in the polity and economy for all citizens, merit-based selection, competition, efficiency and innovation. Thus the path to democracy within a stable constitutional order is also the path to sustainable and equitable economic growth.

The challenge for policy and public action in Pakistan's society as much as in the donor community is to engage in the effort to establish a stable democratic constitutional order. Such a polity would provide the institutional framework for traversing Pakistan's path to development.

In this chapter we will begin by identifying some of the organizations in state and civil society that could become strategic 'drivers of change' for development. We will discuss the constraints to the process of change located in the institutional structure and system of power specific to each driver of change. This may contribute to an understanding of what North calls "path dependence" and at the same time lay the basis for medium-term initiatives for triggering the drivers of change. It is in this context that we will specify some of the medium-term initiatives that can be undertaken by these major organizations of state and civil society together with the international donor community to effect rapid progress on the development path. Some of the key decisions in national policy that could trigger the change process will also be specified. In Appendix I we have articulated an economic strategy for pro-poor growth that could sustain a higher GDP growth rate as well as enable faster employment generation and poverty reduction. The successful implementation of such a strategy would require the particular form of governance, certain key decisions in foreign and domestic policy and the establishment of particular institutions and organizations in civil society, that have been indicated in the main text of this chapter.

THE STRATEGIC DRIVERS IN THE PROCESS OF INSTITUTIONAL CHANGE AND THE NATURE OF PATH DEPENDENCE

In the ensuing sections we identify some of the strategic drivers of the process of institutional change in Pakistan. For each driver of change we will discuss the constraints to success located in the institutional arrangements and system of power specific to that “driver”. In cases where earlier change initiatives had been undertaken we will briefly indicate why such ‘reform’ efforts did not meet with adequate success. We will also identify some of the key initiatives which could trigger a medium-term change for sustaining the longer term strategic drivers of institutional change.

The development process involves a change in three spheres of the Social Order: (i) in the institutional structure of the economy; (ii) in the polity wherein the formal rules of institutions are specified, and; (iii) in society where the informal norms that underpin the institutional structure are enforced. Pakistan today is placed in a combination of circumstances where the concerns of the international community regarding the Al Qaeda-Taliban insurgencies in Pakistan and Afghanistan, are aligned with the two-fold struggle of the citizens of Pakistan: to defend the state against this common enemy and at the same time to establish a democratic constitutional order that can become the basis of broad-based development and national survival. Accordingly the potential drivers of change are located within organizations of the state, in civil society and the donor community. Actualizing the potential will involve the change agents in each of these three spheres acting in concord.

There are seven strategic ‘drivers’ of the process of institutional change in Pakistan:

I. CIVILIAN SUPREMACY IN THE POWER STRUCTURE AND RULE OF LAW

The first strategic milestone in the path to development is the achievement of civilian supremacy over the military, and hence equilibrium in the power structure. This would create the basis of bringing stability to the constitutional order and thereby the establishment of the rule of law. If the process initiated by the ‘drivers of change’ is sustained, then equilibrium in the power structure could enable the achievement of constitutional stability (see Chapter 1 for an analysis of institutional instability). This

would be the precursor of a transition to the institutional structure of a democratic polity that guarantees equality of opportunity to all citizens in the political system as well as the economy. This indeed would be the transition from a rent based, limited access social order to an open access social order characterized by competition, efficiency, innovation and sustained growth.

I.1 The Power System Constraints to Civilian Supremacy and Medium Term Triggers of Change

I.1.1 *The Nature of the Military's Role in the System of Political Power*

By the end of the first decade after independence, Pakistan's military began to conceive a role for itself beyond its constitutional role of national defence. It took on the additional role of periodic intervention into the civilian political system ostensibly to reestablish 'political order', on grounds of 'national security'. This was made possible due to two aspects of Pakistan's political dynamics:

- (a) Given the historical origins of the military in the Pakistan area (as discussed in Chapter 2)², the military was more developed in terms of its organizational and management capability compared to civil society organizations such as political parties.
- (b) The institutional weaknesses in the political system due to delay in the formulation of a constitution after independence and the internecine conflict amongst civilian political factions induced fragility in the nascent political order. This fragility was accentuated by the fact that the major political party (the Muslim League) was more a movement than a party with grassroots organization.

With repeated extra-constitutional political interventions the military acquired a share of the cake in the power structure in terms of direct or indirect influence over political, administrative and economic decision making. Gradually the military became a major element not only in political power but also acquired a vast corporate stake in the economy³. The growing role of the military in

Pakistan's system of political and economic power was facilitated by the growing size and political influence of the Inter-Services Intelligence agency (ISI) and other intelligence agencies such as Military Intelligence (MI). Thus Pakistan, which at its inception was conceived by the founding father Mr. Muhammad Ali Jinnah as a democratic welfare state, became a 'national security state' configured by the military. This state began to override through informal extra-constitutional mechanisms of decision making, the formal constitutional decision making mechanisms of elected civilian authority. This systemic incongruence between the formal constitutional decision making structure in which the military was subordinate to elected civilian authority and the military's actual preeminent role in political decision making was made possible by three factors:

- (a) The weakness of an enforcement mechanism located in civil society.
- (b) A judiciary that until recently was both weak and pliant (see Chapter 1, Sections III and IV).
- (c) Large and well-funded political bureaus within the main intelligence agencies which were able to manipulate both the political process as well as key political, economic and administrative decisions.

The present political conjuncture provides opportunities for undertaking medium-term initiatives that could overcome each of these three constraints, to begin a process of achieving civilian supremacy and the rule of law.

I.1.2 ***The Nature and Timing of Triggers for Medium-Term Change***

The Moment of Change. Two potentially far-reaching changes are beginning to occur within Pakistan's security environment on the one hand and in the balance of political forces on the other. These changes could provide the entry points for efficacious medium-term change initiatives involving organizations in civil society, the state and the donor community:

- (i) With the emergence of militant extremism as the main threat to state security, a significant change is occurring in strategic thinking at the senior officer level within the military. It is being acknowledged at the highest level in the military that defending the state against this new ‘internal’ threat requires the support of the people (see General Kayani’s quote below). It is beginning to dawn on the military that there is widespread resentment in Pakistan against its role in politics even in the heartland of its traditional support base, the Punjab province⁴. Therefore, distancing itself from politics has become a strategic imperative for conducting the war against terrorism in defence of Pakistan. Soon after taking over as Chief of Army Staff, General Kayani is reported to have “...identified that the Pakistan Army’s popularity among the masses had suffered considerable erosion after the military leadership entered into the country’s politics”⁵. At the same time, the military now perceives that popular development initiatives and representative government are necessary to prevent economically and politically deprived sections of Pakistani society from becoming breeding grounds for terrorism. This change in military thinking is illustrated by the following policy decisions of the military:

- (a) General Kayani, on assuming the office of Chief of Army Staff, in his address to the 105th Corps Commanders Conference at the General Headquarters, said that the “...only way to thwart and defeat all kinds of threats was through a comprehensive national effort...” and “...*it is the will of the people and their support that is decisive*”⁶ (italics mine).
- (b) General Kayani made public his unprecedented decision of writing a letter to all military officers asking them to keep away from politics. Indeed he instructed them not to get in touch with President Musharraf (who has now retired from the Army), without his (General Kayani’s) specific permission. “...the Army Chief

told the officers in a letter that they had no role to play in politics...*the prime role of the armed forces is to carry out their professional duties and they should not indulge themselves in political affairs of the country, the COAS said*⁷ (italics mine).

- (c) The military, including its intelligence agencies, assiduously refrained from political interference in the recent elections. This was clearly a policy decision at the highest level. They only provided their professional support to civil authority for ensuring the peaceful conduct of the elections.
- (ii) The historically unprecedented lawyers' movement, supported by civil society, for the independence of the judiciary and the rule of law has made a significant contribution to making explicit the popular consensus for democratic rule. This has had three important consequences for the political agenda of mainstream political parties:
 - (a) The two largest political parties, the PPP and the PML-N decided to cooperate (unlike the past when they were in conflict), for the establishment of democracy and a return to constitutional rule in terms of the constitution as it existed before the October, 1999 military coup d'état.
 - (b) After the elections there are indications that the PPP and PML-N together with the Awami National Party (ANP) and the Muttahida Qaumi Mahaz (MQM) may come together to form coalition governments in the center as well as the provinces of Sindh, Punjab and NWFP. If this comes about then the federal government could get a two-thirds majority in Parliament, thereby enabling them to reverse the amendments in the constitution made by General Musharraf after the October, 1999 coup d'état. Through these amendments General Musharraf had shifted powers from the Parliament and the Prime Minister to the President. A

coalition government in the center could open up new spaces for institutional change: The center of gravity of power could shift to some extent from the military to the Parliament and elected civil authority.

- (c) Both the PPP and PML-N have agreed to take steps for the establishment of the independence of the judiciary within Pakistan's institutional structure. The question of the restoration of the pre-emergency judiciary, however, remains to be resolved.

I.2 Short-Run Triggers of Medium-Term Change

New spaces for triggering medium-term change have been articulated by the new constellation of political forces on the one hand and on the other by a change in the military thinking about the imperatives of the new strategic threat environment of Pakistan. This moment therefore provides an opportunity to undertake the following six initiatives for consolidating the gains made by civil society and institutionalizing sustained democratic rule and an open access economy:

- (i) Formulating new laws and constitutional amendments and getting them passed through Parliament for institutionalizing the supremacy of Parliament, independence of the judiciary, a free media and institutions in the economy for enabling competition and reduction of rents.

The first short-term initiative that could be undertaken for triggering this important medium-term change could be to organize a civil society legal support workshop bringing together leading constitutional experts from Pakistan and abroad, representatives of the Supreme Court Bar Association and Provincial Bar Associations as well as leading social scientists, intellectuals and media representatives. The purpose of this workshop could be to bring together the finest expertise and thinking on the possible new laws and constitutional amendments that could be formulated and passed by the Parliament to achieve the above-mentioned objectives.

- (ii) A second short-term initiative for triggering the above medium term change could be to formulate a law in Parliament and build civil society consensus for empowering the Defence Committee of the Cabinet to be the final authority for dealing with all important matters related with national defence in consultation with General Headquarters (GHQ).
- (iii) Broaden and deepen the consensus for constitutional rule, the independence of the judiciary, independence of the media, protection of citizens' rights and provision of their entitlements, and the institutional structure for a competitive, dynamic and equal access economy.

A short-term trigger for the above medium term objectives could be to bring together representatives of political parties, NGOs, civil society organizations, media, Chambers of Commerce, business leaders, academics from civilian institutions, representatives from military academies, and intellectuals into a series of Democracy Dialogues in each of the four provinces of Pakistan. The aim of these conferences would be to deepen and institutionalize the consensus for constitutional rule, the supremacy of Parliament in lawmaking, independence of the judiciary, independence of the media and restriction of the role of the military and intelligence agencies to defenders of the geographical boundaries of the state.

- (iv) Formulate the policy framework and build a broad consensus for peace with India, the strategy for Pakistan's war against terrorism, development and poverty reduction.

A short-term initiative for achieving this medium term change could be to hold policy dialogues amongst specialized professionals on key national issues such as peace with India, trade and development, poverty reduction, Pakistan's foreign policy and the strategy for the war against terrorism. These policy dialogues could bring together civil society think tanks such as the Institute of Strategic Studies, Institute of Regional Studies, and universities such as the Lahore University of Management Sciences, Pakistan Institute of Development Economics, and Beaconhouse National University. Specialists could also be invited from National

Defence University, Islamabad, the Command and Staff College, Quetta, and the International Institute of Strategic Studies in London. Specialists from the Rand Corporation, the Brookings Institution and representatives from the American military establishment could also be invited. Apart from this, policy thinkers on these issues could be invited from other South Asian academic institutions. These policy dialogues could result in the formulation of policy agendas on key national themes on the basis of national and international experience and state of the art analysis.

- (v) Capacity building of key state organizations such as the judiciary, the Parliament, selected ministries of the government, the civil service and data collection agencies such as the Federal Bureau of Statistics.

A short-term initiative for this medium-term change could be to form a multi-donor support unit which could, in collaboration with civil society organizations and relevant parliamentary committees, provide capacity building support to key institutions of the state such as the judiciary, Parliament and data collection organizations such as the Federal Bureau of Statistics (for a discussion on possible strengthening mechanisms in the Parliament, judiciary and the military, see Section 1.7 of this chapter).

- (vi) Providing capacity building support to the military to enable it to conduct the war against terrorists effectively. It can be argued that the military needs to be reconfigured to conduct successful military operations against militant extremists in terms of three dimensions: (a) Its organizational structure; (b) Weapons systems; (c) Training and motivation.

A short-term initiative for triggering this medium-term change could be to institutionalize cooperation of the Pakistan military with the U.S. Department of Defense, NATO, and the experts from the London-based International Institute of Strategic Studies. This cooperation would be aimed to improve coordination for planning and financial support for the above-mentioned capacity building of the Pakistan military. These institutional arrangements for capacity building of the

Pakistan Military could be initiated through engagement by foreign donors with the Cabinet Committee on Defence of the Government of Pakistan.

II. PEACE WITH INDIA AS A DRIVER OF CHANGE

Trade and investment has historically been both the cause and consequence of institutional change. So it can be for Pakistan. The second strategic objective in the transition process is to implement the Islamabad South Asian Association for Regional Cooperation (SAARC) Declaration⁸ with respect to SAFTA (South Asian Free Trade Area). Pursuant to SAFTA, Pakistan ought to quickly establish free trade and investment with India and other South Asian countries, together with an easing of travel restrictions within the region for the people of South Asian countries. Free trade and investment within South Asia and particularly between India and Pakistan could be a driver of change in the institutional structure of the economy, polity and society respectively: (i) It would be a powerful economic stimulus; (ii) It would create stakeholders for peace and the demilitarization of the polity in Pakistan, which would strengthen the struggle for civilian supremacy in Pakistan; (iii) It would help build a tolerant and pluralistic democratic culture. Let us briefly examine each of these dimensions of institutional change resulting from an India-Pakistan peace settlement:

II.1 Economic Cooperation

II.1.1 *Free Trade and Sustainable Growth with Equity*

An economic opening up with India would sharply accelerate GDP growth in Pakistan through increased investment by Indian entrepreneurs. Moreover, import of relatively cheaper capital and intermediate goods from India could reduce capital output ratios in Pakistan and thereby generate higher GDP growth for given levels of investment. At the same time import of food products during seasonal shortages could reduce food inflation and thereby improve the distribution of real income in Pakistan. Easing of travel restrictions would give a massive boost to Pakistan's tourism, services, and retail sectors, which could stimulate growth. At the same time it would increase employment elasticities with respect to GDP growth (since the tourism sector is labour intensive), and

hence increase employment and improve income distribution. Thus free trade relations with India would enable Pakistan to achieve a higher and more equitable GDP growth.

II.I.2 Free Trade and Civilian Supremacy

As free trade and investment bring substantial economic dividends to the middle and lower middle classes, a large constituency will be created in Pakistan to change the existing perspective of Pakistan as a 'National Security State' which is presumed to be 'threatened by India' and hence requires the dominance of the military in the polity and national policy. Shifting from the ideology of a National Security State to a democratic perspective will make it possible to acknowledge that the security and welfare of citizens is primarily achieved through peace and development. This change in the national perspective can be an important factor in achieving civilian supremacy within the polity.

II.I.3 Free Trade and Democratic Culture

An important constraint to the building of a democratic polity and the principal threat to state structures in South Asian countries arises from internal conflicts such as: religious extremism, ethnic, communal, and caste conflicts, and linguistic sub-nationalism. Containing these conflicts requires the building of institutions for a pluralistic society. In such a society not only diverse identities between individuals can coexist but at the same time multiple identities can be maintained by each individual (Amartya Sen, 2006)⁹. Thus, for example, not only should Muslims and Hindus be able to live in peace, but also a particular individual can be a Muslim, a Balochi, a Karachite, a Pakistani, a South Asian and a Commonwealth citizen at the same time.

Underlying the cultural diversity in South Asia is the unity of shared wellsprings of human civilization. It is a unity that is nurtured by its diversity. Thus national integrity is strengthened not by the denial of multiple identities but by creating a democratic polity within which they can blossom. Essential to the building of pluralistic democracies in India and Pakistan respectively is the opening up of new economic and cultural spaces within which the people of the two countries can encounter the 'other'. In so doing, citizens of the two countries can experience the diversity and richness of the self. In the

past, state-sponsored mutual demonization has sustained inter-state conflict. Demonization involves a narrowing of the mind and a constriction of the identity that places the self and the other into a mutually exclusive and conflictual dichotomy. Nurturing one's richness requires a human relationship within which the other is experienced as a vital fertilizing force in the growth of the self. Liberating the dynamic of such a human contact between erstwhile 'enemies' could be vital to the enrichment of identities and the building of pluralistic democracies in Pakistan and India¹⁰.

II.2 Power System Constraints to the Peace Process and Triggers for Medium-Term Change

II.2.1 *The dialectic of cooperation and confrontation*

The constraints to the peace process can be understood in terms of the dialectic between the strategic political and military imperatives for peace on the one hand and on the other the pressures for path dependence within the military establishment. We will briefly discuss this dialectic within the power system to explain the stop-go nature of the peace process, and the opportunities now available for triggering medium-term change.

II.2.2 *The Strategic Imperatives for the Peace Process.*

The decision by the Musharraf government to engage with India for a peace process was predicated on three power system imperatives:

- (a) Reducing tensions with India in order to focus on economic growth, which was seen by the new military regime as a means of achieving political legitimacy.
- (b) After 2001 when Pakistan joined the West in the war against terrorism in Afghanistan, closure of the front (at least temporarily) was a rational military necessity to avoid a two front situation.
- (c) The military government thought it politic to accede to what had now become a popular demand for peace with India.

These strategic military and political imperatives induced General Musharraf to engage with India on the basis of a new and innovative policy formulation constituted by three elements:

- (i) A shift away from the traditional Pakistani position of making a plebiscite in Kashmir the precondition for normalizing economic relations with India. This was replaced by a new position whereby a *composite* dialogue was to be conducted within which economic relations with India were to be discussed side by side with the resolution of outstanding political/territorial disputes including Kashmir.
- (ii) The dynamics of each of these two tracks were different, with dialogue on trade relations potentially producing results relatively rapidly while the process of resolution of the Kashmir dispute, given its intractable nature, was expected to be much slower. It was initially thought that success in economic relations and the resultant peace dividend would not only create constituencies for lasting peace in both countries but would also help build confidence between the two contending states, resulting in a positive synergistic effect on the political dispute resolution process.
- (iii) There was a significant and innovative change from Pakistan's traditional 'plebiscite or nothing' Kashmir position in which plebiscite was seen as the "unfinished business of partition" and hence essentially a bilateral dispute. This was replaced by a more rational policy whereby General Musharraf proposed that:
 - (a) Both Pakistan and India should set aside their traditional rigid positions and seek to find common ground.
 - (b) He converted the earlier bilateral dispute into a trilateral one by proposing that the resolution of the dispute should be acceptable to India, Pakistan, *and* the people of Kashmir.

II.2.3 *The Power System Constraints to Peace*

General Musharraf's stated policy initially produced encouraging results, with a substantial increase in trade volumes between India and Pakistan and confidence-building measures such as increased visa permits for a larger number of travelers across the border. However, the structural restrictions to trade and indeed investment could only be overcome if Pakistan granted MFN status to India whereby trade, instead of being restricted to a few officially negotiated items, could be opened up for a free flow of goods and capital as in the case of other countries under the WTO regime. These structural constraints to freer trade persisted even as Pakistan under the SAARC umbrella signed the Islamabad Declaration, making SAFTA a national objective.

It is at this point that the power system constraints to the peace process kicked in. Influential elements in the establishment regarded a rapid improvement in economic relations and a permanent peace with India as ultimately a threat to the *raison d'être* of a large military establishment. It was getting a lion's share of the budget on the basis of the 'Indian threat' and the ideology of a national security state. Fears of Pakistan's economy being swamped by India began to circulate and the very identity of the state threatened by normalization of relations with India.

These considerations acted as a break on the peace process. Prime Minister Shaukat Aziz pointedly declared that improvement in economic relations was dependent on progress on the Kashmir dispute. Thus, the policy of delinking the economic and political tracks was reversed and progress in economic relations was once again made hostage to the intractable Kashmir dispute. This setback in the peace process was reinforced as President Musharraf's political position weakened and his reliance on support from his military constituency increased amidst the gathering storm of the judicial crisis. The peace process went on hold as President Musharraf faced the double threat to his government from the democratic opposition on the one hand and the intensified attacks from militant extremists on the other.

II.2.4 *Path Dependence and the Short-Term Triggers for Achieving Peace in the Medium-Term*

The problem of path dependence in this context is located in the ‘mindsets’ of the respective bureaucracies in the two countries that have emerged through many years of mutual demonization. These mindsets were reinforced by the wars between India and Pakistan in 1965, 1971, the more limited Kargil conflict in 1999, and the protracted insurgency in Indian-occupied Kashmir. The recurrent military confrontations and the perception of each other as adversaries in a zero sum game has bred attitudes of mutual mistrust and suspicion amongst the military establishments, the bureaucracies and to some extent the political leadership of the two countries. The attitudes of the political leadership in Pakistan and India have changed significantly during the last decade as a result of the popular pressure to pursue peace. However the trust deficit in the respective military and bureaucratic establishments remains unchanged.

The power system constraints to peace are primarily located in the bureaucratic and military establishments of the two countries. These are locked in the ‘old attitudes’ not only because of the persistence of modes of thought now considered obsolete but also because their present economic power and influence over the political leadership based on what are regarded as ‘national security considerations’ may depend on maintaining the status quo. The possibility of overcoming ‘old attitudes’ and taking initiatives for peace is located in the space available to democratic governments within the power structures of the bureaucracy and military, to translate the will of their people for economic welfare and peace into policy action.

Clearly, free trade between Pakistan and India would be an important medium-term objective that could sustain and substantially accelerate the long-term political process for institutionalizing a lasting peace between the two countries. In the context of the power system discussion above it can be argued that the short-term initiatives required for the medium-term objective in the Pakistan case would be integrally linked with the initiatives for strengthening and deepening democracy that are proposed in the preceding Section I. Achieving free trade would essentially be an act of persuasion whereby a popular consensus is created

amongst civil society organizations, think tanks and a responsive parliament. It would also involve an act of persuasion with respect to the military establishment that free trade would be in the best interest of Pakistan and therefore of the military. Moreover, it would enlarge the corporate gains of the military within its economic sphere.

Five specific short-term initiatives could be undertaken for triggering the process of achieving free trade between India and Pakistan:

- (i) **A Conference of South Asian Parliamentarians.** This could be on the issue of regional economic cooperation¹¹. The issue of free trade and implementation of the SAFTA agreement ought to be the main item on the agenda. The participants of the conference could also include representatives from regional think tanks, experts who have worked on regional cooperation, representatives of civil society advocacy organizations for peace and economic cooperation, civil servants involved in the peace process, lawyers, the media, and representatives from the faculties of the Command and Staff College and the National Defence University.
- (ii) **Establishing A Network of South Asian Institutes for Regional Cooperation.** Networking regional institutes in South Asia that are devoted to policy research and advocacy for peace and economic cooperation through a series of workshops. These workshops would bring together the latest thinking on issues of peace and economic cooperation in South Asia and specifically the dynamics of the peace process.
- (iii) **Advocacy Programme for South Asian Parliaments and Governments.** Establishing an institutional base for bringing together representatives of civil society organizations in Pakistan and India as well as representatives from regional think tanks to undertake a short-term advocacy programme with their respective parliaments and governments

in order to create the basis for a definitive decision on SAFTA implementation in the SAARC Summit of 2010.

- (iv) **South Asia Health Foundation as a Trigger of Change¹²**. The aim of the South Asia Health Foundation (SAHF) would be to make the benefits of peace and cooperation in South Asia palpable to people through improved healthcare. The objective of the SAHF would be to establish high quality model hospitals, together with satellite clinics and outreach programmes for preventive health care, in selected backward districts in each of the countries of South Asia (for an elaboration of this concept see Appendix II).
- (v) **South Asia Education Foundation as a Trigger of Medium-Term Change**. A South Asia Education Foundation (SAEF) could be created on the basis of contributions by individual SAARC member countries, individual philanthropists and more substantially by multilateral donor agencies. The purpose of SAEF would be to create a network of high schools at an international standard in every Tehsil (at least one in each Tehsil) of each of the countries of South Asia. These SAARC schools could act as role models and set the standards for both the private sector and the individual governments to follow.

An important dimension of setting up the SAARC network of schools in Pakistan would be to counteract the growing influence of madrassas and militant religious groups who are enlarging their dragnet of indoctrination particularly in the rural areas and small towns of the NWFP and the Punjab. One of the factors that attracts 'students' to the madrassas is that in most cases they get free lodging and boarding, with the parents having to pay only nominal fees. The SAEF schools, which would provide a broad-based liberal education, ought to have a differential fee system where children from affluent families pay higher fees to partially subsidize those from poor families. An endowment fund for scholarships could also

be created to provide free education to students from poor families. Additionally, the schools should also have a residential facility for out of town students and a provision for free lunch to day scholars.

III. A LARGE EDUCATED MIDDLE CLASS AS A DRIVER OF CHANGE

The third strategic objective in the change process would be to create a large educated middle class which would have a stake in achieving a merit-based open access social order. Such a middle class would provide the social base for establishing a constitutional order which provides equality of opportunity in both the political and economic systems, and strengthen the tradition of reasoned debate, tolerance and a humane society. A large educated middle class would also provide the skill base for diversifying and sustaining GDP growth. Creating such a social stratum would require: (a) A quantum leap in the coverage and quality of school education; (b) The establishment of a network of high quality, market driven and industry specific vocational training institutes in each district of the country; (c) Enabling a small number of universities to reach international standards of research and teaching. At the moment, barring a few exceptions, most ‘universities’ do not meet even the minimum standards that would qualify them for this title.

III.1 Why does Pakistan have a Small Middle Class and How to Enlarge it?

The Muslims of the sub-continent in pre-partition India were relatively less educated in the modern Western tradition than other communities, and in spite of the pioneering efforts of leaders such as Sir Syed Ahmad Khan, the percentage of Western-educated Muslims continued to remain small. In post-independence Pakistan, political and economic power was concentrated in the hands of a small feudal elite and an English-educated military and bureaucratic elite. At the other end were a relatively small number of urban artisans, traders, service providers, low paid government employees and industrial workers. Most of the population consisted of the poor peasantry. The latter, ironically, were inheritors of a rich philosophical tradition drawn from the Muslim Sufis who had come from Central and West Asia to propound a sophisticated message of universal spirituality, love, tolerance, peace and the transcendence of the ego as modes of

connection with God. The middle class, defined in terms of Western-educated professionals and businessmen, was therefore quite small to begin with. A grossly inadequate educational infrastructure and a constrained industrialization process based on state-sponsored large industrialists and traders meant that the middle class continued to remain relatively small.

In Pakistan's rent-based limited access social order most government revenues have gone into financing a large and growing military and bureaucracy and related expenditures in public administration. Expenditures on education have historically been pitifully low. The low priority given to education in public sector resource allocation was due to the exclusivist nature of the ruling elites. The few resources that were allocated to education resulted in expenditures on brick and mortar for building public schools which were critically short of trained teachers, modern curricula and teaching equipment. The few state-sponsored universities that exist have academic standards so low that they cannot be counted as universities in the internationally accepted sense of the term. Apart from this, many of the public sector universities since 1960s have been dominated by fundamentalist religious groups that are instrumental in keeping university standards at an abysmal level.

Financial support by Western donors for education, both at the school and university levels, has gone through corrupt government departments. This has resulted in the loss of a significant proportion of aid money to rent-seeking elites in the government. The donor funds that have reached public sector universities and the school system have by and large failed to have a significant impact on the quality of education. This is because of powerful path dependence in the public sector university and school administrations.

The hiring policy for teachers at universities, and their pay and incentive systems, in most cases preclude high quality teachers. In the few cases where such teachers do offer themselves for and get university appointments, the combination of political harassment and an adverse research environment either forces them to leave, or they languish in a relatively unproductive state of frustration. One of the most important reasons for low standards at university is the extremely low standard of school education. University

entrants can barely read and write in English, which is their medium of instruction at the university level.

Standards of education in public sector schools are extremely low in general, because of the acute shortage of adequately trained teachers. The teacher-student ratio in schools is low, and the teachers, where they are available, are professionally ill-equipped to teach. The hiring process, pay scales, and evaluation and incentive systems of teachers in public sector schools are such that even where adequately trained teachers are available, they are not likely to be inducted, and if they are, they do not stay for any length of time.

It is not surprising therefore that with such an educational infrastructure a large middle class has not emerged in Pakistan. Improving the coverage and quality of education in Pakistan would require simultaneous interventions at both the school and university levels. At the school level, institutional changes will be required to improve the quality and relevance of curricula, hiring, remuneration, evaluation and incentive policy for teachers and large scale teacher training programmes at international standards.

Apart from public sector schools the burgeoning private sector schools could be usefully supported by the government on the basis of merit and special scholarship funds to enable poor students to study at high quality private sector schools. The autonomous Punjab Education Foundation is a good example.

A market based large scale skill development programme of industry specific vocational institutes needs to be established in every province. The Punjab Vocational Council (PVC) has been able to establish a number of good quality, industry specific vocational training institutes whose graduates are able to find employment. A further strengthening in terms of financial resources and organizational improvements could further enhance the impact of the PVC. A similar effort could be undertaken in other provinces. At the university level, given the severe path dependence in public sector universities, it may be more appropriate to begin merit-based support to existing and new private sector universities.

III.2 Short-Term Initiatives for Medium-Term Change for a Large Middle Class

Three initiatives can be undertaken by donors in collaboration with provincial governments and the private sector which could trigger improvements in the coverage and quality of schools, vocational training and university education respectively:

III.2.1 *School Education Authority*

Establish an autonomous School Educational Authority (SEA) in every province. The Board of Governors of such an authority could include eminent educationists, representatives of leading civil society NGOs, business leaders from the private sector, philanthropists and distinguished civil servants with a proven record of performance and dedication to education. To ensure the autonomy of the SEA from the provincial government departments, the SEA should be brought into existence through an act of parliament at the provincial level. The aims of the SEA could be to:

- (a) Bring together the best international and local expertise to develop new school curricula for various stages at an international standard.
- (b) Establish a network of teacher training institutes, with one in every division of the province. These institutes would provide teacher training at international standards for developing in each teacher a creative understanding of her/his subject and innovative teaching techniques that would stimulate the creativity and analytical capacities of students.
- (c) Based on international best practice, develop teaching modules and teaching materials, using printed material as well as audiovisual technology and internet access to specialized schools, teaching and learning websites, for innovative presentation of school level topics in various subjects.
- (d) Develop the institutional base for school administrations by developing procedures for hiring and evaluating teachers, rules of remuneration and promotion, and methods of teaching and evaluating students.

III.2.2 *Private Sector University Development Foundation (UDF)*

While the Higher Education Commission of Pakistan had been set up to support and develop primarily public sector universities, there may be a need to set up a University Development Foundation for the growing number of private sector universities. The aims of the UDF could be to:

- (a) Evaluate existing private sector universities in terms of their faculty, teaching standards and the quality of graduates.
- (b) Provide financial and technical support to private sector universities selected on the basis of merit for enlarging existing departments, building new departments, and providing technical and financial support for libraries and therefore enabling university students to access professional journals and printed material from around the world available at specialized websites.
- (c) Network with high quality graduates from leading universities abroad as well as available faculty members with a view to enabling Pakistani private sector universities to hire faculty members and admit graduates from universities abroad.
- (d) Develop a South Asia network of universities for exchange of teachers and students and the conduct of academic seminars and conferences.

III.2.3 *Provincial Vocational Councils (PVCs)*

Autonomous Vocational Councils could be set up in each province with the support of donors, the provincial government, industrialists, representatives of Chambers of Commerce and industry and philanthropists. The aim of the PVCs should be to set up a network of vocational training institutes in each division of the province which provides high quality technical skill training at the industry

specific level on the basis of courses organized by representatives of industry and world class specialists in vocational training. An international training of trainers programme could be organized on a regular basis to develop high quality teachers for the provincial vocational training institutes.

IV. BUILDING AND STRENGTHENING OF CIVIL SOCIETY ORGANIZATIONS AS DRIVERS OF CHANGE

IV.1 Civil Society Organizations and the Changing Dynamics of the Power Structure

The fourth strategic element in the process of institutional change would be building new and strengthening existing organizations in civil society that can undertake the process of advocacy, propound the ideas and conduct the mobilization and social action necessary for developing the culture for a pluralistic and tolerant society. In so doing, civil society organizations can help sustain the struggle for a democratic polity, social justice and an equitable and dynamic economy. The development of institutions and organizations of civil society could become a powerful factor in changing the center of gravity of the power structure and achieving civilian supremacy within a sustainable democratic structure.

IV.2 Short-Term Initiatives for Medium-Term Change

The following civil society organizations could be strengthened to enable them to become triggers for medium-term change within civil society for the deepening of democracy:

IV.2.1 *Professional Associations such as:*

- (a) Bar Councils
- (b) Associations of electronic and print media
- (c) Associations of natural scientists, social scientists, doctors, university, college and school teachers and students

- (d) Think tanks, research institutes and associations of colleges and universities

There is a need to develop forums where each of these types of associations can meet and discuss cross-cutting issues of common concern related with the building of a democratic culture and polity.

IV.2.2 *Advocacy Groups such as:*

- (a) Human rights groups
- (b) Environmental protection groups
- (c) Groups protecting the rights of women, the underprivileged and minorities
- (d) Groups advocating peace in South Asia and the world

Forums need to be developed where the common denominators of these advocacy groups can be articulated and pursued collectively. These common denominators include issues of human rights, the equality of citizens before the law, peace, the security of citizens as distinct from state security, and the defence of the constitution.

IV.2.3 *Development NGOs at the Village, Tehsil, District, Provincial and National levels that are attempting to:*

- (a) Organize poor communities for income generation projects
- (b) Offer microcredit
- (c) Train and build the capacity of community organizations
- (d) Help deliver basic services such as education, health, sanitation, clean drinking water and small scale infrastructure projects at the local level to rural and urban communities

Apex organizations of these development NGOs need to be built to provide both a forum for sharing experiences and also for developing and advocating development policies at the regional and national levels.

IV.2.4 *Political Parties*

The essential task of political parties is to help build a consensus in society about the polity and the institutional framework for the functioning of the economy, the informal norms and the culture underpinning democracy. The political parties in Pakistan at the moment are not institutionally linked with their mass base, do not conduct grassroots social, developmental or political work, and have weak internal organization. Political parties neither have institutional mechanisms for developing and electing party leaders through a democratic process nor do they have the capacity for developing coherent political programmes and articulating the national, provincial and local issues around which to build a consensus. Consequently, political parties are unable to adequately play their role for the functioning of democracy. Therefore, capacity building of political parties would be an important driver of change. The capacity building would be in terms of cadre training, political education in the principles of democracy and the constitution, training in management and organizational skills, and familiarization with key policy issues that need to be addressed at the local, national and global levels.

IV.2.5 *Trade Unions and Chambers of Commerce*

Over the last decade, Chambers of Commerce at the provincial and national levels have developed into powerful bargaining bodies of employers which seek various concessions from government for individual industries as well as seek to influence industrial policy. They are internally well organized and have regular elections. By contrast, trade unions in Pakistan, which were weak to start with, have weakened further in the last decade. There is a growing tendency for employers to hire a large proportion of their work force as ‘informal labour’ based on labour contractors. Such informal labour is excluded from labour unions and

does not have either the same wage rate as union members or the same job security and related health and bonus facilities. The trade unions themselves have become fragmented and have been drawn into a patron-client nexus with individual politicians, local mafia bosses and other influential elements in the power structure. There is a need to enable trade unions to develop their organizations, management skills, rules of negotiation with employers, and also the ability to take positions on local, regional and national issues. Apex organizations of trade unions also need to be encouraged. Particularly important is the development of associations of landless rural labour and poor peasants who are facing asymmetric power structures, extra-economic coercion and unequal access over factor and product markets (see Chapter 1). Organized labour in both the urban and rural areas can be a significant driver of change towards a democratic polity, rule of law and increased productivity as well as greater equity in the growth process.

V. WOMEN AS DRIVERS OF CHANGE

V.1 Women's Empowerment and the Process of Change

In Pakistan there is an institutionalized bias that gives women relatively less access over economic resources, public services and markets. This gender bias in the economy is structured into the social order by the exclusion of women in most cases from the process of decision making in the political and social systems. The systematic bias against women in the provision of education, health facilities and access to economic and political markets further reduces the already narrow base for achieving increased productivity, innovation and sustained growth. Consider the evidence for three key areas which adversely affect women's empowerment:

- (i) *Literacy Rates.* In spite of an increase in female literacy rates from 31 percent in 1998-99 to 40 percent in the year 2004-05, the large gap between male and female literacy remains virtually unchanged at around 25 percentage points. The female enrolment rates are sharply lower than those of males at the middle and secondary levels partly because of fewer

schools for girls and partly due to the distance between home and school. Khawar Mumtaz reports that one third of girls never attend school “for reasons other than cost”. (Khawar Mumtaz, 2007)¹³.

- (ii) *Health*. Women have even poorer health status than men in Pakistan. This is indicated by the “negative sex ratio” between males and females being 105/100 and the maternal mortality rate at 350-500 per 100,000¹⁴.
- (iii) *Female Labour Force Participation*. The female labour force participation rate, even though it has risen slightly (13.7 percent in 1998 and 15.93 percent in 2003-04), continues to remain abysmally low compared to that of men, which stood at 43.7 percent in 2003-04¹⁵.

Gender inequality in education, health, and employment, adds a crucial dimension to the structure of inequality in the growth process. Redressing the gender bias and the full participation of women in the social order would accelerate and at the same time make more equitable the process of economic and political development.

V.2 Empowerment of Women and Measurement Indicators

We could define empowerment of women as the ability to make choices that affect their personal, social and material lives as independent and free citizens; it enables control over the conditions of their economic, social and political existence. Khawar Mumtaz in an important paper on women’s empowerment has defined empowerment as “the ability to make choices, have a say in decision making, have agency (the ability to act upon goals defined by self)...” (Khawar Mumtaz, 2007)¹⁶.

Some of the measures for women’s empowerment are (Khawar Mumtaz, 2007)¹⁷:

- (i) The United Nations Gender Empowerment Measure (GEM), which consists of the number of seats in Parliament held by women, number of

senior women officials, managers, female professionals, technical workers and ratio of female to male earned income.

- (ii) The Millennium Development Goals (MDG) specify women's empowerment as the ratio of girls to boys in primary, secondary and tertiary education, the ratio of literate females to males in the 15 to 24 years age group, the proportion of seats held by women in the National Parliament and the share of women in wage employment in the non-agriculture sector.
- (iii) The UN Gender-related Development Index (GDI) includes life expectancy and female earned income. These quantitative measures, while being symptomatic of women's disempowerment and gender inequality, do not, as Khawar Mumtaz argues, capture the vital dimension of women's lack of access to resources and the social, economic and political processes for acquiring control over them.

V.3 Power System Constraints to Women's Empowerment

Gender inequality and the disempowerment of women is deeply rooted in the male dominance of elite power structures in governance, political processes, economy and society. The path dependence of gender inequality located in these multi-leveled power structures is reinforced by what North calls "belief systems"¹⁸ of the society. It can be argued that in Pakistan's case these belief systems configure the relationship between formal rules and informal norms in the interlinked sets of institutions in society, polity and economy. Consequently even when the government brings about a change in the formal rules in favour of women through government policies, the informal norms restrict and sometimes neutralize their effectiveness. These institutional constraints are also manifested in administrative functioning even where pro-women policy has been announced and budgetary allocations made. Examples of the limited progress in a number of government initiatives for women's empowerment include, the National Plan of Action (NPA) and the National Policy for Development and Empowerment of

Women (NPDEW). As a recent independent report by Shirkat Gah points out, “despite a number of positive measures taken by the government to address discrimination against women, a serious and growing gap divides *de jure* and *de facto* rights, policy documents and implementation on the ground”¹⁹.

Closing this gap between policy and implementation involves addressing the problem at two levels: reorienting the power structures in favour of women, and changing anti-women cultural practices. Some of the medium-term objectives for closing the gap between policy and implementation could be:

- (i) Changing the informal norms, the social and cultural practices and the associated belief systems which are powerful factors in path dependence. It is these social and cultural factors which impede women’s access to formal mechanisms of decision making and services such as “schools, work places and health care centers” (Khawar Mumtaz, 2007)²⁰. Even earthquake relief mechanisms are distorted by the belief systems to work against women. As relief efforts began after the earthquake of 2005, a campaign was initiated by obscurantist groups claiming that the earthquake was retribution for “the sins of *zina* (adultery/consensual sex), usury and promiscuity”.²¹ The oppression felt by women in the earthquake relief efforts is vividly illustrated in the message sent out: “Please we are not asking you to send us relief goods...But we beg you, tell the world we are not sinful women.”²²
- (ii) Initiatives in civil society, professional associations, and Parliament to hold the government to account for fulfilling the state’s obligations made in international agreements such as the Convention on the Elimination of All Forms of Discrimination Against Women (CEDAW) and to make more effective the National Commission on the Status of Women (NCSW).

Implementation of CEDAW and making NCSW more effective means addressing the asymmetric structures of power in the government, polity,

economy, society and the ideological apparatus which are systematically biased against women. It is these structures of power in the different spheres of social existence that constrain the effectiveness of pro-women initiatives undertaken within them.

The limited effectiveness of initiatives for gender equality within individual sectors is apparent in a recent survey designed to capture the perceptions of Pakistani women. “The focus group discussions and interviews show that women believe that while any given factor may improve the chances of autonomy, for any particular woman this may be nullified by other intervening factors”. For example, while education in general may be an important factor in giving opportunities to women, the social and cultural attitudes of the family may become countervailing factors in women’s empowerment. (Farida Shaheed, 2002)²³.

- (iii) Establishing institutional linkages for gender equality across different sectors and departments of government. At the same time, on the basis of new legislation, a fixed percentage of the budget may be annually allocated for gender equality initiatives. This should be accompanied by the introduction of gender budgeting in every government department whose projects directly or indirectly impact women. This would facilitate cross-sectoral impact for gender equality. Gender specific budgetary allocations and disbursements could be supported by creating an institutional framework for generating gender specific data. This would enable monitoring of the gender dimension of the impact of government policy, budgetary expenditures and projects, as well as the changing structure of the economy.
- (iv) Shifting away from the idea that the problem of gender inequality can be addressed by a particular ministry alone, and establishing institutional linkages in the society and polity between various dimensions of gender equality. These dimensions include human rights struggles, decision

making processes in both the polity and the governance system, and access to information across various sectors of the economy such as education, training, health, industry, agriculture, banking and the services sector.

V.4 Short-Term Triggers for Medium-Term Change

The preceding analysis of the power system constraints to women's empowerment suggests that the process of change would involve: (a) Change in the institutional structures in the governance system, polity, economy and society. These institutional structures systematically exclude women from access over decision making, resources, services and employment, and embody powerful path dependence mechanisms for resisting change; (b) Changing the structures of power in governance, economy, society and ideology; (c) Capacity building of organizations that can be catalysts for women's empowerment including civil society, government departments, local government, Parliament, the judiciary, the media, universities, vocational training institutes, and private sector organizations in industry, agriculture and the services sector.

Some of the short-term triggers for the achievement of the above-mentioned medium-term objectives could be as follows:

- (i) Catalyzing group formation amongst women and strengthening existing women's organizations in different strata of society could become an important trigger of change for women's empowerment.
- (ii) Coalition building for coordinated action by civil society groups, universities, parliament and government to initiate positive changes in cultural and social practices where they oppress women.
- (iii) Capacity building and networking of civil society groups as well as autonomous government organizations (for example, the National Commission on the Status of Women) to do research for changing the existing laws that are discriminatory to women (for example, the Hudood Ordinance); engagement with the Parliament and the ideological apparatus

to provide protection and justice to women and to give them access over resources, decision making and services.

- (iv) Organizations of poor women at the village and mohalla level could improve their access over skill training, credit, and markets for outputs and inputs, and thereby initiate a process of localized capital accumulation. Apex organizations of such village/mohalla women's organizations could achieve countervailing power to redress the existing asymmetry in the provision of education and health facilities, markets, and the decision making processes of local government.
- (v) Strengthening associations of middle class professional women could provide the necessary leverage to improve access over the job market, the provision of justice and access to the political system. Organizations such as Shirkat Gah, the Women's Action Forum, and the Aurat Foundation, which represent women from different social strata, have emerged as effective advocacy groups not just for women but for the broader political agenda of democracy, human rights and justice. Forming apex organizations of women across different strata and at the same time fostering broader alliances with civil society groups could become important short-term triggers for medium term institutional change.
- (vi) Strengthening autonomous community organizations that can conduct development, education, training, credit and advocacy programs for pro-women cultural change at the local level. This strengthening of autonomous community organizations could be accompanied by establishing institutional mechanisms for a partnership between the communities, NGOs, local government organizations, provincial/national government organizations and donors. The success of the Balochistan Primary Education Programme that linked communities at the village level, NGOs and government, is a case in point²⁴.

- (vii) An independent review by leading women's civil society organizations (e.g. Shirkat Gah, Women's Action Forum, Aurat Foundation) and management experts, of administrative procedures related to the implementation of government policies for gender equality. The purpose of the review would be to identify and develop institutional mechanisms for overcoming bottlenecks to pro-women policy implementation. As Khawar Mumtaz has thoughtfully pointed out, "Administrative bottlenecks from bureaucratic red tape, to half hearted commitment to women's uplift, to the time lag between policies drafted at the federal level and their comprehension as they go down the tiers to the provincial and then to the district levels, to the quality of implementation and services, all combine to thwart the impact of programmes"²⁵.

VI. MEDIA AS DRIVERS OF CHANGE

VI.1 Media within the System of Power

The print and electronic media have over the years not only widened in scope and coverage but have also developed an organizational base for the struggle to achieve and maintain their independence. Organizations of print and electronic media have also formed apex associations and linked up with other civil rights groups to emerge as a significant force for social and political change. The ongoing struggle against media restrictions has already linked up with a more broad based citizens' movement for democracy and the rule of law. On the basis of these linkages between the media and other civil society organizations an important attempt for institutional change would be to reverse through the Parliament the restrictions on the media placed through the modified PEMRA Ordinance of November 3, 2007.

VI.2 Triggering Medium-Term Change through Media Development

The role of the media as triggers of change can be strengthened in three ways:

- (i) Improvement in the professional skills of journalists in both the print and electronic media by developing departments of journalism at international standards in some of the leading universities in Pakistan. The recent initiative of setting up a Media University can also be supported by civil society, government and donors to establish an international center of excellence in this field, which can cater to the training needs of the media in Pakistan in particular and South Asia in general.
- (ii) Fostering linkages between Pakistani media personnel and the international community of journalists. This can be done by arranging international conferences in Pakistan and also enabling journalists to participate in meetings, conferences and workshops abroad.
- (iii) Advocacy at the national and international levels for withdrawing the current restrictions on the media and institutionalizing media freedom and freedom of information through new constitutional provisions, laws and regulations.

VII. RESTRUCTURING AND STRENGTHENING STATE ORGANIZATIONS AS DRIVERS OF CHANGE

North, et.al. conceive of the state as an organization.²⁶ Extending this concept *we can define the state as a set of organizations the relationships between which are specified by the institutional structure*. In this case it can be argued that some of the key state organizations can be important drivers of change. If these organizations are restructured, ideologically reoriented and strengthened through an initial institutional change, then they in turn could reinforce the institutional change process. In Pakistan's case, four state organizations can play an important role as drivers of change:

- (i) The judicial organization, consisting of courts at different levels (District Courts, Provincial High Courts, the Supreme Court, the different benches in various regions, and the judges who dispense judicial services).

- (ii) The Parliament, consisting of the Provincial Assemblies, the National Assembly and the Senate.
- (iii) The military, consisting of the Army, Navy and Air Force, together with inter-service organizations and apex structures for command, control and strategic planning.
- (iv) The civil service, consisting of the District Management Group as well as administrative services for various provincial departments such as health and education as well as for the local government system.

Four Specific Short-Term Initiatives for Triggering Medium-Term Change

Four specific short-term initiatives for triggering medium-term change can be undertaken in the state organizations. Let us briefly indicate the restructuring and reorientation in each of these state organizations that can be brought about to strengthen them and at the same time enable them to contribute to the process of change towards a democratic order.

VII.1 Triggers of Change: Judicial Organization

Two restructuring and strengthening measures can be undertaken:

- (1) Institutional change regarding selection and promotion rules.
- (2) Organizational changes with respect to training, size and coverage. Let us consider each of these:
 - (i) *Selection and Promotion Rules.* The most important restructuring and strengthening of this organization could occur through the institutional change of ceasing the present practice of judges being appointed (in some cases promoted) by the executive. This would be replaced by the rule of allowing the judicial organization itself to appoint and promote judges:
 - (a) The complete independence of the judiciary in terms of the rules of its functioning should be ensured as stipulated in the Constitution

of 1973. The strengthening of civil society as discussed in the preceding subsection could help in the enforcement of this constitutional rule.

- (b) Select new judges at different levels on the basis of merit and independence.
- (c) Promotions within the organization to be made on the basis of seniority and merit as determined by committees of senior judges working in a transparent selection and promotion process.

(ii) *Organizational Changes*

- (a) To improve the quality of the candidates who appear for selection as judicial officers at various levels it is necessary to establish high quality law departments at international standards in a few of the leading universities in the country. These law departments should be able to hire the finest legal minds from Pakistan and all over the world, paid international salaries, to achieve a world class teaching standard. At the same time, talented high school students should be sent on scholarships to the leading universities in the West for training at the undergraduate and post-graduate levels; these students could subsequently become candidates for appointments at university law departments.
- (b) The salaries of judges should be substantially raised to make them internationally market competitive so that the best Pakistani legal minds can be offered appointments within the judicial organization.
- (c) The number of judges should be substantially increased to enable a larger number of benches to be established in each province in order to improve access to justice for the citizens.

- (d) The number of judges in the High Courts as well as the Supreme Court needs to be substantially increased so that the backlog of cases can be disposed of and delay in the provision of justice avoided.

VII.2 Triggers of Change: The Parliament.

The strengthening of Parliament would involve both an institutional change as well as organizational changes. Let us briefly indicate each of them:

- (i) *Institutional Change.* The independence and legislative powers of the Parliament as envisaged in the 1973 Constitution as it existed before the October 1999 coup d'état needs to be restored, and the practice of issuing executive edicts and ordinances should be brought to an end. After the February, 2008 elections there is a consensus amongst the major political parties to strive for reversing the constitutional amendments made by President Musharraf and restoring the constitution to its pre-October, 1999 condition.
- (ii) *Organizational Strengthening.* Each member of Parliament should have a small research staff of her/his own to investigate and analyze issues that can be brought to the Parliament in the form of questions or bills. At the same time, the Parliament at each level (Provincial Assemblies, National Assembly and the Senate) should have a high quality research team to examine, investigate and advise the respective strata of Parliament on key issues which are exercising the minds of members of Parliament at various levels. Institutional links should be created between various levels of the Parliament and specialized research bodies, think tanks, universities and leading intellectuals who can be requested by the Parliament to appear for hearings on key legislative issues where specialized expertise is required. This would enable Parliamentarians to form considered views based on the best intellectual expertise available. Here the strengthening of civil society

organizations indicated in the preceding section may reinforce the organizational strengthening of the Parliament.

VII.3 Triggers of Change: The Military

It is clear that Pakistan's military is now operating within a much more complex geostrategic and threat environment than before. The global structure of international relations articulated at Yalta soon after the Second World War has changed dramatically with the end of the Cold War: The emergence of new centers of economic, political and military power has changed the balance of power between Asia, Europe and the U.S. respectively. Major changes have occurred in the constellation of economic and military power in the region where Pakistan is located. Finally, the nature of the strategic threat to Pakistan may have changed significantly with the emergence of militant religious extremism and non-state entities with the ability to destabilize the state and society.

In view of these changes in the geostrategic environment of the Pakistan military, the following three organizational restructuring and strengthening initiatives may be necessary in the national interest of Pakistan:

- (i) *Improved Strategic Planning through Links with the Civilian Specialized Knowledge Sector.* In the strategic planning of the military, the regional and international dimensions and the interplay of economic, social, political and security factors have become much more important during the last decade compared to the earlier post-independence period. Therefore, strategic military planning needs to be informed by high quality, specialized expertise in these new spheres which impact national security. Consequently, linking the military's strategic planning with the civilian knowledge sector may be important for strengthening the military.
- (ii) *Reorienting Combat and Intelligence Capabilities for Counterinsurgency Operations.* In view of the current importance of the threat of non-state entities such as the Al Qaeda-Taliban alliance, it may be advisable for the military to change the skill composition of its combat capabilities to enhance the relative

strength of its counterinsurgency operations. In this regard, new skills, weapons systems, intelligence gathering capabilities and economic and political analysis in strategic planning of counter terrorism have become necessary. At the same time improved organizational interface capabilities need to be developed to coordinate operations with NATO and U.S. forces operating in the region. The obvious consequences of these organizational changes are that the military will have to redeploy its combat elements from the various international frontiers to domestic operations. This means that seeking peace with India and Afghanistan is a strategic imperative.

(iii) *Education and Operational Efficiency.* It is now widely recognized that the principal security threat to Pakistan is not external but internal, emanating from the Al Qaeda and Taliban alliance. Therefore, operational efficiency to combat this new enemy requires the support of the moderate democratic forces in civil society. Hence the combat capability of the Army and improved focus would be facilitated if the country moves towards a constitutional democratic order where civilian supremacy ensures popular support for the military's undoubtedly challenging professional tasks. In this regard it may be an important driver of change to introduce new courses at four different levels of the military training structure:

- (a) Cadet colleges, which prepare high school students for entry into the Army.
- (b) The Kakul Academy where fresh entrants into the category of commissioned officers of the Pakistan Army are trained.
- (c) The Command and Staff College, where Major level officers are trained.
- (d) The National Defence University where senior officers at the Brigadier level are trained.

At each of these training and educational levels, courses can be usefully introduced on political theory, comparative political systems, the history of

democratic societies, Pakistan's Constitution, and an institutional analysis of what has now become Pakistan's crisis of state and society. Courses on international relations and the geostrategic environment of the country with respect to the Al Qaeda and Taliban could also be useful. An important aspect of these new courses would be to inculcate awareness amongst the officers that in the new threat environment, a stable, democratic, constitutional order in Pakistan is vital for the efficient functioning of the military and for the integrity and prosperity of the Pakistani state.

VII.4 Triggers of Change: Civil Service Reforms

Pakistan's civil service, which in its earlier form was the 'steel frame' of the British Raj has over the last three decades undergone a process of institutional and organizational decay. Repeated political intrusions to serve a rent-based governance model have weakened the integrity of its decision making process, its esprit de corps and individual motivation. The centralized structure of the civil service and the inadequate professional skills, overstaffing and low salaries it suffers from, are inconsistent with the contemporary challenges it faces in terms of delivering public services and managing the public policy of a country in crisis.

There is an urgent need to bring about reforms to change the skill composition of the civil service towards greater specialized professionalism. Also necessary are the introduction of performance measures for evaluation, drastic downsizing, and market competitive pay scales. The civil service also needs to be made accountable to the public through the Parliament in the following key departments: health, education, finance, and law enforcement. A restructured civil service, with performance based remuneration, transparent operating procedures and public accountability could be a significant driver of change. In addressing the challenge of civil service reforms it may be helpful to briefly examine: (i) The changing internal balance between the bureaucracy and the military within the power structure; (ii) The process of institutional decay in the civil service, and; (iii) The major factors responsible for the failure of civil service reforms so far.

VII.4.1 *The Changing Internal Balance within the Power Structure*²⁷

The dominance of the military and bureaucracy relative to the Parliament and elected executive authority in the power structure was due to three main factors (see Chapters 1 and 2 for elaboration): (a) The relatively greater organizational strength and weight in the power structure of the military and bureaucracy inherited from the Raj; (b) The institutional weakness of the polity where the formal rules embodied in the constitution could not be articulated until 1973 due to bureaucratic intervention in the constitution making process in 1956, the military intervention in 1958, and the following decade of authoritarian rule under Field Marshall Ayub Khan; (c) Over the last five decades, recurrent military interventions on the one hand and the weakness of political parties and civil society organizations on the other, prevented the development of informal norms and popular mobilization as enforcement mechanisms of the constitution (see Chapter 1).

The military and bureaucracy had relatively greater weight in the power structure to begin with. Gradually, however, the power wielded by the military in governance increased while that of the bureaucracy declined (Akmal Hussain, 1996)²⁸.

The changing relationship between the military and bureaucracy, the two dominant elements of the state apparatus in Pakistan, can be understood in the context of three analytically distinct but interactive processes, which are in turn conditioned by the dynamics of Pakistan's security environment and its foreign policy priorities:

- Changes in the internal sociology of the military and bureaucracy, associated with changes in the social origins of officers in these two institutions.
- Changes in the professional quality of officers and the internal cohesion of the institutions.

- The balance of power between the state apparatus on the one hand, and such institutions of civil society as Parliament, political parties, media and various fora of public expression, on the other.

Over the past four decades, the social origins of both the bureaucracy and the Army have shifted, from the landed elite to a wider base in the urban middle strata and the burgeoning class of rural capitalist farmers²⁹. The latter class did include scions of some of the earlier feudal landlords who had transformed themselves following the Green Revolution of the late 1960s, when new, high yield varieties made owner cultivation with hired labour an economically attractive venture (Akmal Hussain, 1989)³⁰. However, these capitalist farmers also included many rich peasant families who were able to move up the social scale by reinvesting the increased profits that became available from farming (Akmal Hussain, 1988). While the change in social origins of officers in both these organizations has tended in the same direction (a broadening of the social base), changes in their respective organizational strength have moved in opposing directions. The level of professional competence and indeed the internal institutional cohesion have improved in the military while they have deteriorated in the bureaucracy.

VII.4.2 *Institutional Decay of the Civil Service*

During about the past four decades, Pakistan's bureaucracy has undergone a gradual process of institutional decay. Perhaps the single most important factor here has been a sharp decline in the professional calibre of the civil servant, caused primarily by the collapse of academic standards at colleges and universities, and by the institutional failure to provide high quality in-service training. To make matters worse, the best products of even the present poor education system do not normally sit for the civil service examination. Yet the structure of the civil service remains predicated on the now-unfounded assumption that the 'intellectual cream' of society applies for and enters the service. Having entered the civil service, these poorly educated young officers

face a future in which there is an absence of rigorous formal training to equip them professionally for the tasks they are supposed to perform.

Three institutions purport to provide a semblance of ‘training’ to the civil servant: the Pakistan Academy for Administrative Training, which gives courses to each crop of fresh entrants to the civil service; the National Institute of Public Administration (NIPA), which gives courses to officers at the middle stage of their careers (deputy secretary level); and the Pakistan Administrative Staff College (PASC), which gives training to senior officers, federal joint secretaries and heads of departments. In all three institutions there is a virtual absence of a high quality faculty, and reliance is placed on invited speakers who lecture and then leave. Courses are so superficial and participant evaluation so soft as to pose no great intellectual challenge to the students.

The decline in the professional quality of individual officers has been accompanied over the past three decades by an erosion of institutional decision making mechanisms in the civil service. Political factions at various points in the political power structure interfere arbitrarily in a wide range of decisions: From transfers, promotions and dismissals of officers or judicial decisions by district commissioners on land disputes, right up to the issues of arrest of drug barons or approval of major projects. The integrity of institutional decision making is often undermined by vested interests outside the civil service. This has resulted in increasing insecurity, corruption and on occasion demoralization of civil service officers. Such attitudes may have been reinforced by the large scale dismissals of senior officers, sometimes on flimsy charges by successive regimes³¹.

At a structural level the CSP (Civil Services of Pakistan) was the elite cadre within the civil bureaucracy and its members inherited the ICS (Indian Civil Service) tradition. The CSP cadre remained dominant in the bureaucracy and indeed over national decision making, right up to the end of the Ayub period. During the subsequent brief government of General Yahya Khan, the dominance of the CSP began to be broken by the military authorities. Subsequently, the

government of Z.A. Bhutto further eroded the internal cohesion and esprit de corps of the CSP by a policy of 'lateral entry' into the service. This meant that politically loyal individuals whether from various government departments or outside the bureaucracy altogether, could be appointed to key civil service positions. During the period of General (later President) Zia-ul-Haq, the position of the bureaucracy within the structure of state power was rehabilitated. Zia gave greater confidence to civil servants by putting an end to the device of 'screening' civil servants which, during the periods of Yahya and Bhutto, was like a sword of Damocles hanging over in service bureaucrats, who could be dismissed or transferred at short notice. Senior bureaucrats now had relatively longer tenures.

In the government of Prime Minister Benazir Bhutto, new stresses were placed on the structure of the bureaucracy as a result of the growing political conflict between a PPP government in the centre and the opposition IJI (Islamic Democratic Alliance) government in Punjab, the largest province³². During the Musharraf period, the bureaucracy was further weakened as military officers (some in active service, others retired) were placed in key positions at various tiers of the civil service.

The typical civil servant in Pakistan today functions in the face of institutional instability between the judiciary, the executive and the parliament. Under these circumstances, she/he must deal with the formidable problems of the breakdown of law and order, terrorism, poverty and social polarization. The civil servant is supposed to be tackling these problems in an environment where often-conflicting demands from a still nascent political system are impinging upon a civil service whose institutional stability and organizational cohesion has already been undermined by the arbitrary and piecemeal interventions of successive governments. To be able to function effectively in such a situation, Pakistan's civil servants would have to be individuals of considerable professional acumen, integrity and initiative. Yet few of them today could claim to be imbued with these qualities.

VII.4.3 *Why Have Civil Service Reforms Failed So Far*

One of the most important reasons for the failure of civil service reforms (CSR) is the absence of accurate feedback mechanisms to evaluate CSR performance. Nadeem ul Haque in an incisive analysis has argued that in most countries, the standardized indicators for CSR performance did not exist or were not developed enough to monitor and evaluate the success of CSR³³ (Haque, 2007). Secondly, incomplete and inconsistent data prevents successful wage bill management and makes the auditing of payrolls more difficult. Thus, cost-cutting becomes more difficult to achieve in CSR³⁴ (World Bank, 1998). Thirdly, there are no appropriate checks and balances between donor agencies and borrowing governments. For example, Haque (2007) cites that, “poorly defined authority between budgeting and personnel departments allowed overstaffing and proliferation of ministries to continue.” Fourthly, the reforms are unsuccessful as they provide the wrong incentives to most of the players involved³⁵.

Haque (2007) shows that across countries, the ratio of public sector wages to private sector wages has declined and this may incline the skilled workers to opt for the higher paying private sector. This phenomenon of adverse selection is not addressed in the reforms. Also, the reforms do not provide formal training to civil servants and do not enhance their skill profile. The data shows that despite falling wages, employment in the civil service has increased, but at the lower end of the skill continuum. CSR have failed to ensure that the recruitment procedure is devoid of political interference and is merit-based³⁶ (World Bank, 1998). But, most importantly, the absence of formal institutions to promote accountability and a framework for staff evaluation to reward effort may result in a total collapse of CSR. It is believed that an elite-dominated civil service has constantly blocked many aspects of civil service reforms, to maintain the status quo in their favor.

VII.4.4 *Overcoming Path Dependence in the Civil Service*

- (i) *Overcoming Path Dependence through Legislation and a Parliamentary Committee.* The most important challenge in successful CSR would be to

overcome the powerful path dependence through which reform efforts in the past have been obstructed by vested interests within the civil service. Therefore, the process of reform must begin with the Parliament in the newly elected government through which appropriate legislation can be passed.

The Parliament can specify a road map and timetable within an action plan for implementation of the new legislation. To ensure compliance a Parliamentary Committee could be set up to oversee the implementation process. The CSR legislation and the action plan for implementation could be formulated with the support of a technical team consisting of the following categories of persons:

- (a) International experts
 - (b) Distinguished retired civil servants who have the experience and the desire for reforms
 - (c) Key members of Parliament
 - (d) Representatives of civil society organizations in the fields of gender equality, development, education, and health
 - (e) Management experts from universities and research institutes
- (ii) *Establishing a Network of Catalysts within the Civil Service Organization.* Key positions within the civil service can be identified which are critical to the implementation of the CSR. These positions can be filled on the basis of advice from the technical team mentioned above, with persons who have the qualifications, the experience, and the commitment to undertake the implementation process of the reforms.
- (iii) *Institutional Changes for Performance Based Evaluation and Remuneration.* One of the important factors in the institutional weakness of the civil service is the lack of formal rules and enforcement

mechanisms which would induce a high level of performance and efficiency. In this regard at the moment, there are no performance measures for the efficiency of individuals, let alone for a department in the civil service. There is an Annual Confidential Report (ACR)³⁷ but it can be based on personal whims and biases instead of the productivity of a particular person. Therefore, the current structure is unable to evaluate the effort a civil servant makes to meet his obligations³⁸. To overcome this problem, an evaluation format could be set up for the evaluation of each department, and the performance of each individual could be reviewed by an independent committee of senior members. At the same time, specific job descriptions could be identified for particular posts within the organization. Promotion and pay increments may be based upon the annual review of an individual's performance. These measures could provide a foundation to evaluate and improve the performance of the civil service and remove any personal biases from this process.

- (iv) *Filling the Skill Gap*. It is important that the civil service has a highly skilled and professional staff, particularly in the following key departments at both the federal and provincial levels: (a) Finance, (b) Planning and Development, (c) Health, and (d) Education.

The evidence suggests that the ratio of public sector wages to private sector wages has declined over time, making it unattractive for skilled workers to opt for the public sector³⁹. Thus, the CSR need to address this problem of “adverse-selection” by bringing public sector wages at par with the private sector⁴⁰.

Apart from this, it is necessary for the civil service to attract students from the private sector by setting up job fairs in top class universities. To improve its skill profile and increase efficiency, the civil service should employ officials from top private sector organizations and academic

institutions⁴¹. Training programs could begin for new recruits so that their skills develop quickly.

- (v) *An Inter-Ministerial Gender Empowerment Group (IMGEG)*. The IMGEG could be staffed by gender equality specialists working at the joint secretary level in each of the major departments in the federal and provincial governments that impact the status of women. These departments could include: Finance, Planning and Development, Women's Development, Education, Health, and Law. The IMGEG could also include representatives from key civil society organizations engaged in the struggle for women's equality, the National Commission for the Status of Women and the Federal Bureau of Statistics.

The function of the IMGEG would be to oversee the process of implementation of the CSR and to ensure that it adheres to the stipulated timetable. The IMGEG would undertake corrective interventions whenever bottlenecks to reform implementation are identified. The IMGEG would also liaise with the proposed Parliamentary Committee for Civil Service Reforms to maintain continued support and pressure from Parliament for the implementation process.

- (vi) *A Civil Service Performance and Policy Impact Assessment Organization*. This organization should be part of the CSR legislation and ought to directly report to the proposed Parliamentary Committee for Civil Service Reforms.
- (vii) *Effective Monitoring of Funds Usage by Donors*. An important reason for the non-implementation of earlier CSR is the lack of accountability between donor agencies and the government. In the absence of appropriate checks and balances, governments do not use the funds optimally for improving the civil service. For example, Haque (2007)⁴² notes that, "poorly defined authority between budgeting and personnel departments allowed overstaffing and proliferation of ministries to continue." Thus, an

important prerequisite for successful implementation of these reforms is the close monitoring of funds usage by the concerned donor agency.

- (viii) *An Autonomous Federal Bureau of Statistics (FBS)*. The new FBS ought to be independent of all government ministries and its independence and transparency should be ensured by new legislation. It should report directly to the Parliament and the public. Such independence of the FBS is crucial for the provision of accurate data on the following key aspects of national life: (a) the national economy; (b) progress on the empowerment of women; (c) evaluation of the impact of government policy on key dimensions such as institutional change; (d) poverty reduction; (e) progress on social indicators; (f) health; (g) education; (h) security of citizens; (i) access to justice; and (j) state of the physical environment.

CONCLUSION

In this chapter we have attempted to contribute to the design of a policy framework for initiating a transition to development. This involves an integrated process of change in the spheres of polity and economy. On the basis of the analysis in the preceding chapters we have proposed that the path to democracy within a stable constitutional order is also the path to sustainable and equitable growth. This is because it is precisely a stable democratic constitutional order in Pakistan that can create the institutional conditions for sustained and equitable growth: Opportunities in the polity and economy for all citizens, merit based selection, competition, efficiency and innovation.

We have identified some of the strategic drivers in the process of institutional change which are located in the political system, the regional environment, civil society, key organizations of the state, and the donor community. We have also analyzed path dependence in the context of the power system within each potential driver of change. Finally we have indicated some of the specific short-term initiatives that can be

undertaken by government, civil society and donors in concord to trigger the change process.

Notes

- ¹ Douglass C. North, John Joseph Wallis, Barry R. Weingast, A Conceptual Framework for Interpreting Recorded Human History, National Bureau of Economic Research, Working Paper Series, Cambridge (Mimeo), December 2006.
- ² See Chapter 2, pages 35 to 38.
- ³ For a discussion of the military's stake in the economy, see, Ayesha Siddiq, Military Inc.: Inside Pakistan's Military Economy, Pluto Press, London, 2007.
- ⁴ For a discussion on the conditions under which the military can back the respect of the people, see, Akmal Hussain, Respecting Institutions, The Daily Times, July 1, 2007.
- ⁵ The News, January 19, 2008.
- ⁶ The Daily Dawn, January 4, 2008.
- ⁷ The News, January 14, 2008.
- ⁸ Islamabad SAARC Declaration, January 2004.
- ⁹ For a discussion on multiple identities, see, Amartya Sen, Identity and Violence: The Illusion of Destiny, Allen Lane, London, 2006, pages 3 to 5.
- ¹⁰ This sub-section-iii, is drawn from Akmal Hussain, Human Security, Economic Development and the Peace Process, chapter in the book titled: Non-Traditional and Human Security in South Asia, Collection of papers presented at an international seminar, jointly organized by the Institute of Regional Studies and National Commission for Human Development in Islamabad on 31 October – 1 November 2006, Institute of Regional Studies, Islamabad 2006, pages 233 to 234.
- ¹¹ A few years ago SAFMA organized a highly successful conference in Bhurban of Parliamentarians from each of the countries of South Asia in which it was agreed that the peace process should be made irreversible through institutional mechanisms in both government and civil society.
- ¹² This section is drawn from Akmal Hussain, South Asia Health Foundation, Concept Note, November 8, 2004, South Asia Center for Policy Studies (SACEPS), Dhaka, 2004.
- ¹³ Khawar Mumtaz, Women's Empowerment in Pakistan, South Asian Journal, April-June 2007, Lahore, page 7.
- ¹⁴ Ibid. page 7.
- ¹⁵ Ibid. page 8.
- ¹⁶ Ibid. page 6.
- ¹⁷ Ibid.
- ¹⁸ Douglass C. North, Understanding the Process of Economic Change, Princeton University Press, Princeton, N.J, 2005.

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- 19 Shirkat Gah Women Resource Center, et.al., Talibanization and Poor Governance, Undermining CEDAW in Pakistan, Second Shadow Report, Lahore, April 15, 2007, page 7.
- 20 Khawar Mumtaz, Women's Empowerment in Pakistan, op.cit., page 14.
- 21 Shirkat Gah Women Resource Center, et.al., Talibanization and Poor Governance, op.cit. page 13.
- 22 Ibid.
- 23 Farida Shaheed, Imagined Citizenship: Women, State and Politics in Pakistan, Shirkat Gah Women's Resource Center, Lahore, 2002, page 63.
- 24 Qurat ul Ain Bakhtiar, Community Support for Female Education in Balochistan published in Salma Halai Badruddin, Kausar S. Khan, Riffat Moazam Zaman (eds.), Proceedings of the National Conference on New Directions in Research for Women, The Agha Khan University and The Asia Foundation, 1999, pages 41-42.
- 25 Khawar Mumtaz, Women's Empowerment in Pakistan, op.cit., page 14.
- 26 Douglass C. North, John Joseph Wallis, Barry R. Weingast, op.cit., page 4.
- 27 Some parts of this sub-section are based on an earlier paper of the author: Akmal Hussain, The Dynamics of Power: Military, Bureaucracy and the People, in Kumar Rupesinghe and Khawar Mumtaz (ed), Internal Conflicts in South Asia, International Peace Research Institute, Oslo, SAGE Publications, London and New Delhi, 1996.
- 28 For a detailed analysis of the dynamics between the military and bureaucracy in Pakistan's power structure, see, Akmal Hussain, The Dynamics of Power: Military, Bureaucracy and the People, op.cit.
- 29 Akmal Hussain, The Political Economy of State Power, Part-IV in the book titled: Strategic Issues in Pakistan's Economic Policy, Progressive Publishers, Lahore, 1988.
- 30 Akmal Hussain, Pakistan: Land Reforms Reconsidered, Hamza Alavi and John Harriss (eds.), Sociology of Developing Societies, South Asia, Macmillan Education Ltd., London, 1989.
- 31 For example, Ayub Khan dismissed 1,300 civil service officers in 1959 by a single order; then in 1969, 303 were dismissed by General Yahya Khan; during the government of Z.A. Bhutto, as many as 1,400 were dismissed through a single order; and again in 1973, 12 senior civil service officers were unceremoniously removed.
- 32 For a detailed discussion on the impact of this contention on the bureaucracy, see: Akmal Hussain, Dynamics of Power, Military, Bureaucracy and the People, op.cit., pages 44 to 47.
- 33 Nadeem ul Haque, Why Civil Service Reforms Do Not Work?, Pakistan Institute of Development Economics, Islamabad, 2007.
- 34 Pakistan: A Framework for Civil Service Reform in Pakistan, World Bank, 1998.
- 35 Nadeem ul Haque, op.cit.
- 36 Ibid.

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- ³⁷ It is now called the Performance Evaluation Report (PER) but the same caveats that apply to the ACR also hold for the PER.
- ³⁸ Pakistan: A Framework for Civil Service Reform in Pakistan. World Bank. 1998.
- ³⁹ Nadeem ul Haque, Why Civil Service Reforms Do Not Work?, Pakistan Institute of Development Economics, 2007.
- ⁴⁰ Please note that before making any increase in wages, it is important that proper accounting procedures are implemented. Otherwise, this increase in wages is unlikely to improve efficiency as the civil servants will not be punished for shirking.
- ⁴¹ National Commission for Government Reforms, 08 Mar. 2008
<<http://www.ncgr.gov.pk/Forms/16-Reform%20papers/OPEN-TRANSPARENT-EQUALITY.pdf>>.
- ⁴² Nadeem ul Haque, Why Civil Service Reforms Do Not Work?, op.cit.

CHAPTER 5

CONCLUSIONS: PRINCIPAL PROPOSITIONS AND POLICIES

By

Akmal Hussain

INTRODUCTION

This chapter draws upon the preceding chapters to articulate the principal analytical propositions of this study and indicate some of the implications for development policy. This study shows that the development problem in Pakistan is rooted in a rent-based social order constituted by a specific structure of power, institutions and economic growth. Consequently, the ‘development policy’ that emerges from our analysis is aimed at achieving an integrated change process in the interrelated spheres of polity, society and economy. In Part A the principal analytical propositions are presented and in Part B seven ‘drivers of change’ are identified.

PART A: PRINCIPAL PROPOSITIONS

Proposition 1

Institutions and the Power Structure

The way a particular set of institutions is configured and hence the dynamics between them are determined within the underlying structure of power.

Proposition 2

Power Structure Imbalance and Relationships Between Institutions

It is the particular imbalance between various factions within the power structure that conditions the dynamic interrelationships within the set of institutions being considered.

Proposition 3

Power, Markets, Governance and Growth

The power structure influences both individual markets as well as economic policy. It is through the interaction between the functioning of markets and economic policy that the nature of the growth process is determined. Thus, the power structure of a particular country shapes its set of institutions as much as it gives content to the process of both governance and growth.

Proposition 4

Power and Asymmetric Markets

In Pakistan, unstable GDP growth and endemic poverty are located in the structure of power at both the national and local levels. These power structures configure markets to make them asymmetric with respect to the rich and poor.

Proposition 5

Elite Power and Structural Inequality and Poverty

The rent-based elite power structure, by excluding the majority of the population from high quality education and health facilities, and giving unequal access over capital, land and labour markets, serves to build inequality and poverty into the structure of the growth process itself.

Proposition 6

Institutions and Poverty

The poverty reduction capacity of growth is constrained by the institutional environment of the state and the economy: The poor face a structure of state power, markets and institutions which discriminate against their access over resources, public services and government decision making.

Proposition 7

Rent-Based Governance and Economy

The failure to achieve sustained high growth as well as inequality is located in the governance model itself. In Pakistan's governance model (originating in the Raj), power has historically been constituted by accessing state resources for arbitrary transfer as patronage to selected individuals. During the pre-independence period, resource gratification within this governance model was conducted to win loyalty for the Raj. After independence, state resources granted within a structure of dependency was undertaken to build individual domains of political power.

Proposition 8

National Identity and Consciousness

(a) National identity is constituted by language (and the world it implies), culture, forms of apprehending their humanity by a people, a shared experience of the past, or solidarity for a common purpose in the future. These elements of national identity feed into national consciousness. Indeed, they enrich broader identities spanning regional groupings of countries and the global community in general.

(b) Therefore, in the context of this analysis, national consciousness can be defined as the experiential dimension of historical bonding amongst a group of people, in terms of which they apprehend their identity and pursue shared goals for the future.

Proposition 9

Identity and the Aesthetic Imagination

Poets and artists play a role in articulating and developing national consciousness through the aesthetic imagination. They combine the specific images of a land and its forms of social life to evoke the aesthetic experience of collective identity that may be national, or regional, and yet inseparable from the universal.

Proposition 10

The Polity, Legitimacy, and National Identity

Extending Rousseau's analysis, we can propose that it is in the granting of legitimacy to a state and its political order that a people become a nation. This is because the granting of

legitimacy involves the apprehension of the common interest and the exercise of the General Will. It is in exercising the General Will that the people become conscious of the particular values that are essential to them and which articulate their collective identity.

Proposition 11

Constitution and its Enforcement Mechanism

The Supreme National Institution consists of both the formal rules that a constitution embodies, as well as the informal norms on the basis of which the formal rules are enforced by a particular society.

Proposition 12

The Significance of the Citizens' Movement

- (a) The citizens' movement is a battle for the rule of law and for a political order that seeks the compliance of citizens not through brute force but legitimacy.
- (b) The present protest movement implies the affirmation of shared norms and values by the people of Pakistan. It is these essential values and the norms representing them that serve to build a consensus for constitutional rule.
- (c) The importance of the present citizens' movement is that it is defending the Supreme National Institution, the constitution. In so doing, the citizens are apprehending their core values and establishing the informal norms that are vital for sustaining the formal rules of the constitution.

Proposition 13

Dictatorship and Resistance

What makes the maintenance of dictatorial rule difficult in Pakistan is that the prevalent social norms induce citizens of the state to resist rather than submit to oppression. The people of Pakistan aspire for freedom and democracy. This is why historically even military governments have found it necessary to constitute a civilian façade.

Proposition 14

The Conditions for a Consensual Order

Consensual order requires both legitimate institutions and the consciousness of people, which induces them to resist rulers who deviate from democracy.

Proposition 15

Democracy and Institutional Balance

Within a democratic structure, the purpose of separation of powers among the various pillars, and the balance thereof, is to establish the necessary checks to arbitrary power. Thus, institutional balance is designed to secure individual freedom and human rights, both of which are essential to a democracy. It follows, therefore, that a particular institution can win the respect of the people only in so far as it is shaped *by* and balanced *within* a structure of institutions that embody the Will of the People.

Proposition 16

Institutional Balance and Organizational Strength

If an individual organization arrogates to itself disproportionate power and thereby goes beyond the bounds specified by the basic structure of the constitution, then in fact such an organization is weakened. This is because as its identity and balance within the institutional structure vis-à-vis other state organizations is eroded, so too is its strength, which is drawn from the Will of the People.

Proposition 17

Decorum and Institutions

Decorum is palpable through the choreography of comportment, poise and the stylised actions of living individuals, and the abstract rules of structured interaction that define an institution. Decorum is also embedded in social norms, which when violated cause a sense of outrage.

Proposition 18

Unity in Diversity in South Asia

In South Asia, the interaction of diverse cultures across millennia has brought to the surface certain fundamental features of each, which, while being rooted in specific linguistic, religious and social *forms*, are essentially of a universal nature. The particular configuration of these trans-cultural and universal features of human experience in South Asia constitutes the unique civilizational identity of this region.

Proposition 19

The Origins of Democratic Consciousness

(a) The democratic consciousness of the people in the Pakistan area originates in the 7th century B.C., when monarchies first appeared in the Gangetic plain. At this time the more independent-minded Aryan settlers, imbued with a sense of equality and participatory governance, rejected the hierarchic monarchy structures, and moved towards the Punjab plains and the wooded low-lying hills in northwestern India. Here they formed the first republics based on tribal coalitions.

(b) The movement for independence, particularly in its last phase during the 1940s when the formation of Pakistan specifically came on its agenda, was located in democratic discourse and the rule of law. The argument presented to British authorities by Jinnah (a lawyer himself) was couched within the framework of law and drawn from the liberal democratic tradition of the European Enlightenment.

(c) The consciousness of freedom, equality and fraternity is located at a deeper level in popular consciousness through the Sufi saints who introduced Islam to the poor peasantry and downtrodden sections of Indian society from the 11th century onwards. The Muslim Sufis carried the message of a universal spirituality, of love as a mode of experiencing the Divine, tolerance, and human brotherhood. The message of the Sufis as it entered the consciousness of the people became part of their folklore.

Proposition 20

Forms of Rent in Various Periods

The mutually reinforcing structures of power, polity, and economy have sustained a rent-based limited access social order. However, the forms of rent generation and their appropriation by various factions of the elite have varied in different periods of Pakistan's history.

- (a) In the decade after independence (1947-57), the principal form of rent was the grant of evacuee property by the government to selected migrants from India, or to privileged locals.
- (b) In the Ayub period (1958-68), the main forms of rent emerged from the regulatory economic policy framework: direct and indirect subsidies, import protection to favoured industries, import controls, cheap imported machinery and industrial raw materials through an overvalued exchange rate and cheap credit to favoured enterprises.
- (c) In the Bhutto period (1973-77), the nationalization of industries, banks and insurance companies, together with the expansion of the state apparatus, provided a large resource base for rents to favoured political loyalists. The export of manpower to the Middle East through state-sponsored organizations became another important form of rent transfer to both the companies who profited from the manpower export and also the individuals who acquired jobs at a much higher level of remuneration in the Middle East than the opportunity cost of their labour in Pakistan.
- (d) During the Zia ul Haq period (1977-88), there was a large inflow of funds and weapons as Pakistan became a conduit for the U.S.-sponsored Afghan Jihad against Soviet troops in Afghanistan. The principal form of rent transfer to key individuals and factional supporters of the military government was the siphoning off and transfer of foreign funds and revenues from the covert sales of some of the weapons meant for the Afghan Jihad.

(e) During the 1990s, the principal form of rent was allegedly siphoning off funds from public sector banks, insurance companies and investment institutions such as the National Investment Trust and the Investment Corporation of Pakistan.

(f) During the period 1999 to 2007 it was alleged that there was manipulation in the stock market to accentuate the amplitude of fluctuations in stock prices. It was alleged that favoured individuals were enabled through this device to appropriate rents by buying when stock prices were at rock bottom and selling when stock prices had peaked.

Proposition 21

Rent-Based Institutions, Inefficient Industries and the Balance of Payments Problem

The Ayub government adopted a policy of giving large direct and indirect subsidies to Pakistani industries and resource transfer from agriculture to industry through the internal terms of trade mechanism. This institutional framework engendered industrial organizations that were inefficient and uncompetitive in the international market. Consequently, a number of industries, particularly textiles (the largest industry) began to generate negative value added, i.e., in terms of international prices their cost of production was greater than the value of their output. This set the mould for Pakistan's narrow export base and the balance of payments problem that still persists today.

Proposition 22

Institutions, Structural Inequality and Endemic Poverty

The economy that emerged within the institutional framework of the Ayub government was characterized by a structural propensity for economic inequality and endemic poverty:

(a) The policy of redistributing incomes further in favour of the rich, in an unsuccessful attempt to increase domestic savings, resulted in a high degree of concentration of asset ownership in industry, banking, and insurance. The increased concentration of productive assets in industry and services became a structural factor in generating increased income inequality.

(b) The agrarian structure was characterized by a high degree of concentration of land ownership and widespread tenancy. Within such an agrarian structure, when the Green Revolution technology became available, it induced land resumption from tenants by large land owners for owner cultivation on large mechanized farms. Consequently there was polarization in the size distribution of farms. This laid the structural basis for tenant eviction, landlessness, and endemic poverty in the rural sector.

(c) An economy characterized by large interregional variations in the level of productive assets, infrastructure facilities, and the availability of irrigation water meant that there would be large regional income disparities. During the 1960s the most important factor in accelerating the growth of regional income disparities within what is Pakistan today was the regionally differential impact of the Green Revolution, since the new technology could only be adopted effectively in areas where there was a seasonally flexible supply of irrigation water.

Proposition 23

Exclusivist Polity, Regional Economic Disparity, and Political Conflict

Given the fact that each of the provinces of Pakistan has a distinct culture and language, political stability requires provincial equality within a federal democratic structure. The centralized, authoritarian political system in the Ayub period, combined with growing regional income disparities, created explosive political tensions. These culminated in the breakup of the state of Pakistan and the emergence of its eastern wing as independent Bangladesh in 1971. At the same time, an armed insurrection began in Balochistan, seeking independence. Sindhi nationalism also gained momentum over the years due to seething resentment generated by a sense of economic deprivation and the lack of participation in governance. This resentment was intensified with the “judicial assassination” by the military government of Zia ul Haq, of Sindh’s greatest son, Mr. Z.A. Bhutto, who was the first popularly elected Prime Minister of Pakistan.

Proposition 24

Institutional Instability, Unstable Growth, and Endemic Poverty

The military governments of General Ayub Khan and General Zia ul Haq laid the structural basis for deterioration in the institutions of the polity, and an economy characterized by loan-driven growth with endemic poverty.

The democratically elected governments in various periods sought authoritarian forms of power within formally democratic structures and thereby accelerated the process of institutional and economic decline.

Thus the problem of persistent poverty, inequality, and unstable economic growth is located as much in institutional instability as it is in conflicts within the power structure.

Proposition 25

Loan Dependence and Unstable Growth

(a) An historical analysis shows that Pakistan's economic growth is critically dependent on foreign inflows, thereby creating a pattern of persistent instability: During periods when large foreign inflows are available, GDP growth rates increase. When foreign inflows are reduced, the GDP growth rate declines.

(b) The pattern of foreign inflows, and hence growth, corresponds to Pakistan's international alignments. Thus large foreign inflows and high growth occurred in the Ayub period (1958-68), when Pakistan joined the CENTO and SEATO pacts to become part of the Western defence strategy on the Southern flank against the Soviet Union; in the Zia ul Haq period (1977-88), when Pakistan became a frontline state for the covert war against Soviet troops in Afghanistan; and in the Musharraf period, when Pakistan was positioned to help fight the war against Al Qaeda and the Taliban.

Proposition 26

The Issue of Poverty and Unsustainable Growth in the Musharraf Period

(a) When the official poverty figures are corrected for biases in the base year selection and inflation rate estimates, then it is clear that during the Musharraf period, in spite of high GDP growth rates after 2002, there has been no significant reduction in

poverty. At the same time, unemployment and inequality increased significantly during the period.

(b) An analysis of the sources of growth also suggests that growth during this period was fueled mainly by banking, telecommunications, and consumer durables, indicating a pro-rich growth process which would not be expected to substantially reduce poverty.

(c) The sharp increase in the inflation rates, intensifying balance of payments pressures, persisting structural constraints to growth, and the worsening law and order situation, suggest that GDP growth may not be sustained.

Proposition 27

Power Structure, Governance, and Economic Policy

The inability of successive governments to address the structural constraints to sustained growth and poverty reduction was due not simply to an inadequacy of economic policy: It was located in the institutional framework of governance and the underlying structure of power which conditions the design and implementation of policy and the functioning of the economy.

Proposition 28

The Rise of Religious Extremism in the State, Polity, and Economy

The institutional and organizational basis of religious extremism was laid during the Zia period. It restructured the state apparatus to conduct the Afghan Jihad and established an infrastructure of madrassas for the indoctrination and military training of youngsters to hate and kill in the name of religion. While the state-sponsored religious militant groups helped fight the Afghan war, they were able to enlarge their space within Pakistan's society and polity as well as in its intelligence and security apparatus.

Proposition 29

Crisis Point

With the emergence of the Musharraf government, the conflict for supremacy within the power structure between elected civilian authority and the military came to a head: The

consequent institutional instability has also intensified. The gathering momentum of contradictions within the political sphere is taking place in an environment where the forces of Al Qaeda and the Taliban have emerged as rival powers to that of the state within its territorial domain. The crisis of the state has reached its apogee, where the very moment of climax contains the potential for a resolution.

Proposition 30

Development, Democracy, and the West

- (a) The development process involves a change in three spheres of the Social Order:
 - (i) In the power structure and the polity wherein the formal rules of institutions are specified.
 - (ii) In society where the informal norms that underpin the formal institutional structure are enforced.
 - (iii) In the institutional framework and structure of the economy.
- (b) Pakistan today is placed in a combination of circumstances where the concerns of the international community regarding the Al Qaeda-Taliban insurgencies in Pakistan and Afghanistan are aligned with the two-fold struggle of the citizens of Pakistan to defend the state against this common enemy, and at the same time to establish a democratic constitutional order that can become the basis of broad-based development and national survival.

PART B: POLICY FRAMEWORK FOR A CHANGE IN THE SOCIAL ORDER

1. Policy Challenge: Democracy, Institutional Change, and Development

It is in moving towards a stable democratic constitutional order that Pakistan can create the institutional conditions for sustained and equitable growth: equal opportunities in the polity and economy for all citizens, merit-based selection, competition, efficiency, and

innovation. Thus the path to democracy within a stable constitutional order is also the path to sustainable and equitable economic growth.

The challenge for policy and public action in Pakistan's society as much as amongst the donor community is to engage in the effort to establish a stable democratic constitutional order. Such a polity would provide the institutional framework for traversing Pakistan's path to development.

2. The Seven Strategic Drivers of Change

The potential drivers of change are located within organizations of the state, in civil society and the donor community. Actualizing the potential will involve the change agents in each of these three spheres acting in concord. Seven strategic drivers of change can be identified as follows:

(i) *Civilian Supremacy in the Power Structure and Rule of Law*

The first strategic milestone in the path to development is the achievement of civilian supremacy over the military, and hence equilibrium in the power structure. This would create the basis of bringing stability to the constitutional order, and thereby the establishment of the rule of law. If the process initiated by the 'drivers of change' is sustained, then equilibrium in the power structure could enable the achievement of constitutional stability. This would be the precursor of a transition to the institutional structure of a democratic polity that guarantees equality of opportunity to all citizens in the political system as well as the economy. This indeed would be the transition from a rent-based, limited access social order to an open access social order characterized by competition, efficiency, innovation, and sustained growth.

(ii) *Peace with India*

Trade and investment has historically been both the cause and consequence of institutional change. So it can be for Pakistan. The second strategic objective in the transition process is to implement the Islamabad SAARC Declaration with respect to

SAFTA. Pursuant to SAFTA, Pakistan ought to quickly establish free trade and investment with India and other South Asian countries, together with an easing of travel restrictions within the region for the people of South Asian countries. Free trade and investment within South Asia, and particularly between India and Pakistan, could be a driver of change in the institutional structure of the economy, polity and society respectively: (i) It would be a powerful economic stimulus; (ii) It would create stakeholders for peace and the demilitarization of the polity in Pakistan, which would strengthen the struggle for civilian supremacy in Pakistan; (iii) It would help build a tolerant and pluralistic democratic culture (see Chapter 4, Section II for details).

(iii) *A Large Educated Middle Class*

The third strategic objective in the change process would be to create a large educated middle class which would have a stake in achieving a merit-based open access social order. Such a middle class would provide the social base for establishing a constitutional order that provides equality of opportunity in both the political and economic systems, and that strengthens the tradition of reasoned debate, tolerance, and a humane society. A large educated middle class would also provide the skill base for diversifying and sustaining GDP growth. Creating such a social stratum would require: (a) A quantum leap in the coverage and quality of school education; (b) The establishment of a network of high quality, market driven and industry specific vocational training institutes in each district of the country; (c) Enabling a small number of universities to reach international standards of research and teaching. At the moment barring a few exceptions most 'universities' do not meet even the minimum standards that would qualify them for this title.

(iv) *Building and Strengthening of Civil Society Organizations*

The fourth strategic element in the process of institutional change would be building new organizations in civil society and strengthening existing ones that can undertake the process of advocacy, propound the ideas, and conduct the mobilization and social action necessary for developing the democratic culture for a pluralistic and tolerant society. In

so doing, civil society organizations can help sustain the struggle for a democratic polity, social justice, and an equitable and dynamic economy (see Chapter 4, Section IV for details).

(v) *Organized Women, and Sustained and Equitable GDP Growth*

In Pakistan there is an institutionalized bias that gives women relatively lesser access over economic resources, public services, and markets. This gender bias in the economy is structured into the social order by the exclusion of women in most cases from the process of decision making in the political and social systems. The systematic bias against women in the provision of education, health facilities, and in accessing economic and political markets further reduces the already narrow base for achieving increased productivity, innovation, and sustained growth. For the same reason, gender inequality adds another dimension to the structure of inequality in the growth process, and in the political and social development of the country. Therefore, redressing the gender bias and the full participation of women in the social order would accelerate and at the same time make more equitable the process of economic and political development.

Catalyzing group formation amongst women and strengthening existing women's organizations in different strata of society could become an important driver of change. Organizations of poor women at the village and mohalla level could improve their access to skill training, credit, and markets for outputs and inputs, and thereby initiate a process of localized capital accumulation. Apex organizations of such village/mohalla women's organizations could achieve countervailing power to redress the current existing asymmetry in the provision of education, health facilities, markets and in the decision making processes of local government. Similarly, strengthening associations of middle class professional women could provide the necessary leverage to improve access over the job market, the provision of justice, and access to the political system.

(vi) *Free Media*

The print and electronic media have over the years not only widened in scope and coverage but also developed an organizational base for the struggle to achieve and maintain their independence. Organizations of print and electronic media have also formed apex associations and linked up with other civil rights groups to emerge as a significant force for social and political change. The ongoing struggle against media restrictions has already linked up with a more broad-based citizens' movement for democracy and the rule of law.

The freedom and strengthening of the media needs to be institutionalized by a new act of Parliament guaranteeing media freedom, and by establishing organizations for professional training of media personnel. Fostering links between Pakistani media professionals and the international media community also is important.

(vii) *Restructured and Strengthened State Organizations*

If key state organizations are restructured in terms of organization and incentives, strengthened in terms of capacity, and ideologically reoriented, then they could reinforce the institutional change process. In Pakistan's case, four state organizations can play an important role as drivers of change: (i) The judicial organization, consisting of courts at different levels (District, Provincial High Courts and the Supreme Court, the different benches in various regions, and the judges who dispense judicial services); (ii) The Parliament, consisting of the Provincial Assemblies, the National Assembly, and the Senate; (iii) The military, consisting of the Army, Navy and Air Force together with inter-service organizations and apex structures for command, control, and strategic planning; (iv) The civil service, consisting of the federal, provincial and district strata, together with law enforcement agencies such as the police, which are under civilian control.

CONCLUSION

In this study we have analyzed for the first time the phenomenon of unstable GDP growth and persistent mass poverty in Pakistan in terms of the structural features of Pakistan's

economic and political architecture. We have shown that the structural constraints to sustained growth and poverty reduction are located within the rent-based institutional framework of Pakistan's political economy. In investigating the problem of growth and poverty within this perspective we have for the first time analyzed the phenomenon of institutional instability in Pakistan. We have argued that this instability in turn is located within the imbalance in the power structure which has historically prevented the emergence of a democratic polity characterized by the subordination of the military to elected civil authority, the sovereignty of Parliament, and the rule of law.

We have shown that the challenge of economic development in Pakistan is inseparable from the challenge of building a democratic polity which provides through its institutional structure equality of opportunity to all citizens and the incentive systems for merit-based selection, efficiency and innovation.

In addressing the challenge of development we have identified some of the major drivers of change for moving from a rent-based, limited access social order to a competitive, efficient and dynamic open access social order. In identifying the drivers of change we have also conducted a power system analysis of each "change driver" to indicate the resistance to change and the nature of path dependence. The power system analysis of path dependence reveals the entry points and the short-term triggers for efficacious medium-term change towards the institutional framework for a stable, democratic polity and economy.

Such an institutional framework and associated incentive systems would enable a sustained and equitable growth process within a dynamic economy and enlightened society.

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APPENDIX I

A STRATEGY FOR PRO-POOR GROWTH¹

Pro-poor growth has been defined as a process which directs a disproportionate share of the increase in national income in favour of the poor. Going beyond this, we would suggest that restructuring the growth process in favour of the poor involves empowering them to participate in the economic, social and political decisions that affect the material conditions of their life.

Designing a policy for pro-poor growth involves addressing the structural features of Pakistan's growth process that constrain its capacity at the macro level for poverty reduction (see Chapter 1, Section II). Therefore at the macro level a pro-poor growth policy should aim to achieve seven objectives:

- (a) Induce higher investment, particularly foreign investment, to fill the gap between the present relatively low domestic investment rates and the investment rate required to sustain the target GDP growth rate of 7.5 percent. At the same time, the macroeconomic policy should aim to reduce the ICORs so as to have a higher GDP growth for given levels of investment.
- (b) Increase employment elasticities with respect to output in order to generate higher levels of employment for given rates of GDP growth.
- (c) Increase the weight of small scale industries as well as micro enterprises in the total GDP to enable both a lowering of ICORs as well as improving the distribution of income. This would enable faster and more equitable growth.
- (d) Export diversification towards higher value added goods and increasing the export elasticity with respect to output growth so that balance of payments pressures associated with high GDP growth can be released.

- (e) Increase the level and efficiency of government expenditure on economic and social infrastructure, which are crucial for sustaining economic growth.
- (f) Increase the transparency of governance and reduce corruption to alleviate poverty.
- (g) Improve the efficiency of organizations responsible for delivering public services to the lower income groups.

While pursuing the macroeconomic policy goals, at the same time it is necessary to come to grips with the nature of the poverty process at the local level. Poverty occurs when individuals are isolated from the community and locked into a nexus of power which deprives the poor of their actual and potential income. The poor face a structure of markets, state, and institutions, which discriminate against their access over resources, public services and government decision making². In this context overcoming poverty means *empowering* the poor at the local level. The challenge of pro-poor growth therefore is to reorient both the macro structure of the economy as well as the local structures of power in favour of the poor.

This Appendix I, is organized into three sections as follows:

Section I summarizes some of the major structural features of the economy and the poverty process that need to be addressed in such a strategy; section II outlines a strategy that can achieve both rapid growth and even faster poverty reduction; section III gives the outline of an approach for a direct attack on poverty through what we have called Participatory Development at the local level. This constitutes a vital element not only in alleviating poverty but also in faster GDP growth. In this section, finally we draw on some lessons from the experience of decentralization reforms from South Asian countries in the context of poverty, growth and empowerment.

I. STRUCTURAL FACTORS IN UNSTABLE GROWTH AND ENDEMIC POVERTY

We begin by identifying the major features of the crisis in the real economy that need to be addressed. These are:

I.1 Governance, Poverty and Unemployment

As we have seen in Chapter 2, poverty and inequality increased rapidly during the 1990s due to the decline in GDP growth, coupled with a decline in employment elasticities, labour productivity, and real wages in both the agriculture and the industrial sectors. In the subsequent period 1998-99 to 2004-05, while GDP growth accelerated sharply, there was no significant poverty reduction. At the same time unemployment as well as inflation rates, particularly food inflation, increased sharply (see Chapter 3, Section II). The economic burden on the poor has intensified further due to inadequacies in three major aspects of governance:

- (i) Inefficient delivery mechanisms for translating development expenditure into improved health, sanitation, education, services and access to justice for the poor. Consequently, the disproportionate shortages of these services for the poor compared to the rich have deprived them of an important redistributive mechanism in the economy.
- (ii) During the 1990s the unprecedented level of corruption in the government had a significant adverse impact on economic growth and poverty. During the period of the Musharraf government even though GDP growth accelerated, widespread corruption persisted. In the Transparency International Corruption Perception Index, Pakistan's Country Rank increased from 87 in 1999 to 144 in 2005. In the Corruption Perception Index (CPI) which ranges from 10 (highly clean) to 0 (highly corrupt), Pakistan's CPI, already at a low level in 1999 at 2.2, fell further to 2.1 in 2005³.

During the 1990s, the cost of such corruption to the banking sector alone has been estimated at around 10 to 15 percent of the GDP in 1996-1997; and the overall cost to the country of corruption at higher levels of government was 20% to 25% of the GDP, which was approximately US \$ 15 billion in the same period (Burki, 2004)⁴. During the Musharraf government evidence of the worsening of

Pakistan's corruption indicators suggests the adverse effect of corruption on the poor may have persisted. Talat Anwar has argued that good governance is closely linked to the capacity of poverty reduction for given GDP growth rates. He provides evidence of the fact that most of Pakistan's governance indicators worsened during the period 1998-2005. Trends in corruption as measured by the CPI (Transparency International) indicate that the already low score of CPI declined between 1999 and 2005, indicating an increase in the level of corruption during this period. Pakistan's corruption levels during this period were even higher than in South Asian countries such as Sri Lanka, India and Nepal. (Talat Anwar, 2006)⁵.

The latest Global Corruption Barometer released by Transparency International (December 6, 2007) shows that corruption levels have increased even more sharply in the last two years. For example the percentage of people in the all Pakistan sample who paid bribes for obtaining services doubled to over 30 percent compared to 15 percent in the year 2006. The report places Pakistan among the top ten countries which are most affected by bribery.

Widespread corruption in government contributes to constraining growth and increasing poverty in three ways: (a) The rising magnitude of corruption over time and at different levels of decision making in the government is a major factor in the uncertain policy environment and a constraint to estimating accurate project feasibilities. This would be expected to constrict investment, GDP growth and employment; (b) The transfer of resources from entrepreneurs to politicians and government officials results in a misallocation of national resources and a lower level of productive investment and hence GDP growth than would be the case in the absence of such corruption; (c) The financial cost of individual projects increases, thereby simultaneously inducing slower GDP growth for given levels of investment and also reducing the employment elasticities with respect to investment; (d) To the extent that the poor are obliged to pay bribes for public services while in many cases the affluent with political influence may not have to pay bribes, the distribution of real income between the rich and the poor is

worsened by the mode of provisioning of public services (see Chapter 1, Section II).

I.1.1 Policy Implications: In this section we have argued that two of the most important governance factors that prevent sustained high growth and rapid poverty reduction are the persistent high levels of corruption and inefficient delivery mechanisms for the provision of public services. Addressing these issues requires establishing new institutions at different levels of governance.

The high and persistent levels of corruption in government (whether civilian or military) is a significant factor in constraining investment, allocative efficiency, GDP growth, employment and poverty reduction. The resource transfers associated with corruption are also a form of rent that is a structural feature of a rent-based economy and polity that North, Joseph, Weingast call a “limited access social order” (North, Joseph, Weingast, 2006)⁶. The institutional structure that makes corruption endemic also increases transaction costs and thereby constrains specialization, productivity and growth. Therefore, a policy of combating corruption through the establishment of institutions in state and civil society would be important driver of change on a development path to an advanced economy (open access social order). In this context six new institutions could help control corruption:

- An independent judiciary with adequate resources and judicial officers to provide access to justice at every tier of governance and in every region, at the national, provincial and district levels.
- An independent and constitutionally mandated structure of ombudsman’s offices at the district, tehsil and union council levels to listen to and rectify public complaints about the equitable provision of public services such as health, education, sanitation, and hygienic drinking water. At the same time the ombudsman’s offices at each tier would hear and rectify citizens’ complaints about corruption and misuse of office by government functionaries.

- Citizens' Protection Committees at the mohallah and village levels where complaints about the provision of public services and against corrupt officials can be registered and systematically taken up. In the case of complaints about public services, these can be taken up at various tiers of the local government. In the case of complaints about corruption and misuse of power against citizens by government officials, these can either be taken up within the ombudsman structure or in more serious criminal cases, at various levels of the judiciary.
- An independent media equipped with adequate investigative reporting capabilities to independently report corruption cases and monitor the performance of government departments with respect to the provision of public services. Newspapers can devote a special page to public services and corruption monitoring on a monthly basis. This would contain independent investigative reports on the performance of government departments with respect to their targets for the coverage and quality of public services. The monitoring page would also report on corruption cases and monitor the efficiency of ombudsman's offices at the district, tehsil and union council levels.
- An independent Federal Bureau of Statistics that directly reports to the Parliament and not to the government. The FBS would be tasked to conduct periodic surveys on the incidence of poverty, gender specific employment, inflation, productivity and real wages. The FBS would also be tasked to provide survey based data on the quality and coverage of services such as health, sanitation, hygienic drinking water, education and vocational training. The FBS could also be required to conduct regular surveys to provide data to the public about the extent of corruption and the performance of various government departments with respect to their performance targets.
- The bilateral as well as multilateral donors in Pakistan could establish a Multi-Donor Transparency Support Unit (MTSU) whose task would be to determine the extent to which donor funds have achieved the purposes for which they had been provided to both government as well as civil society organizations. In the case of

funds provided for supporting strategic ‘Drivers of Change’ initiatives to government and civil society, the MTSU could, apart from evaluating the functioning of the concerned departments and organizations, also conduct an independent Impact Assessment Survey on an annual basis.

I.2 Health and Poverty

Research for the NHDR suggests that the high prevalence of disease amongst those who are slightly above the poverty line is a major factor in pushing them into poverty. Those who are already poor get pushed into deeper poverty as the result of loss of income and high medical costs resulting from illness. The data show that on average 65% of the extremely poor were ill at the time of the survey, and they had on average suffered from their illness for 95 days. The survey data also show that the poor predominantly go to private allopathic practitioners rather than to basic health units or government hospitals. Private medical facilities in rural areas and small towns have grossly inadequate diagnostic facilities and there is widespread prevalence of spurious drugs in private sector retail outlets. Consequently, when the poor fall ill they suffer for a protracted period and get locked into a high cost source of medical treatment. This erodes whatever little asset base they have, and pushes them into indebtedness and deeper poverty⁷.

The NHDR data on the widespread prevalence of disease in Pakistan is supported by evidence from the National Health Survey of Pakistan⁸, which shows that in rural areas the prevalence of fair plus poor health for females above 25 years is as high as 75%, while that for the males in the same age group is 45%. The curative healthcare system has expanded substantially during the last decade (for example, the population per doctor has fallen from 2082 in 1990 to 1529 in the year 2000), yet the high incidence of disease points to both inadequate coverage and the poor quality of the healthcare system in Pakistan.

I.2.1 Policy Implications: Since the UNDP, NHDR study shows that health is a major factor that pushes people into poverty, clearly improved nutrition and health conditions are important for poverty reduction. Improving nutrition, preventive hygiene, provision of safe drinking water, service delivery of basic health units, and improving the

diagnostic and treatment capabilities of Tehsil and District Hospitals, are urgent imperatives to deal with the crisis of health and poverty.

I.3 Asymmetric Markets, Local Power Structures and Poverty

The NHDR/PIDE survey data⁹ shows that the poor peasants face adverse input and output markets. They have to pay relatively higher prices for their inputs and get relatively lower prices for their outputs compared to the large farmers. At the same time, due to the lack of access to formal credit markets, the poor peasants often have to borrow from the landlord. As a consequence they are obliged to work on the landlord's farm at less than market wage rates. The NHDR study shows that the poor peasants could be losing one third of their income due to asymmetric markets for inputs and outputs.

In the urban and semi-urban areas where the poor households are predominantly involved in micro enterprises the data shows that low incomes are primarily due to the low productivity and profitability of these micro enterprises.

I.3.1 Policy Implications: The evidence shows that asymmetric markets and local power structures constitute structural factors in persistent poverty. They siphon off as much as one third of the actual incomes of the poor, deprive them of their potential savings, and keep their productivity and incomes at a low level. A pro-poor policy must address these structural factors if poverty is to be overcome on a sustainable basis. Better access for the poor over the markets for labour, land, and agricultural inputs and outputs, means changing the balance of power in favour of the poor at the local level. This requires facilitating the emergence of autonomous organisations of the poor, particularly poor women, at the village, Union Council, Tehsil and District levels. It also means enabling the poor to access credit, training, and technical support for increased employment, productivity, and income.

I.4 Institutional Factors in Slow and Unstable Crop Sector Growth¹⁰

In agriculture the average annual growth rate of major crops has declined from 3.34% during the eighties to 2.38% in the nineties. At the same time, the frequency of negative growth years in some of the major crops has increased. This has accentuated the process

of poverty creation: In a year of negative growth (i.e. a bad harvest) the small farmers operating at the margin have to borrow for consumption requirements and go into debt. In the following season, in the absence of an investible surplus, they are unable to reconstitute the production cycle and hence slip into poverty. Thus the instability of crop sector growth and the increased frequency of negative growth years becomes a structural factor in poverty creation. Underlying this phenomenon are five major institutional constraints:

- (a) Reduced water availability at the farm gate due to poor maintenance of the irrigation system and low irrigation efficiencies of about 37 percent. While the availability of irrigation water has been reduced, the requirement of water at the farm level has increased due to increased deposits of salts on the topsoil and the consequent need for leaching. About 33 million tons of salts are annually brought into the Indus Basin Irrigation System, out of which 24 million tons are being retained.¹¹ The consequent large water deficit means that the farmers even in the irrigated areas are dependent on rainfall. Given the vicissitudes of weather, particularly due to global warming (which has caused wide variation in the timing, location and quantum of rainfall), rain does not always fall in the right quantity at the right time for the water deficit farmers. Consequently, there is greater instability in crop sector output than before. (Akmal Hussain, 1999)¹².
- (b) What makes improved efficiency of irrigation even more important is that the extensive margin of irrigated acreage has been reached, so the future agricultural growth will have to rely on improving the efficiency of water use and other inputs. Thus the rehabilitation of Pakistan's irrigation system for improving irrigation efficiency has become a crucial policy challenge for sustainable agriculture growth.
- (c) It is well known that high yielding varieties of seeds gradually lose their potency through re-use, changing micro structure of soils, and changing ecology of microorganisms in the topsoil. Therefore, breeding of more vigorous seed varieties adapted to local environmental conditions, and their

diffusion amongst farmers through an effective research and extension programme is necessary. Yet there is no organized seed industry in Pakistan to meet the needs of farmers for the supply of vigorous varieties of seeds even in the major crops. In wheat, for example, the average age of seeds in Pakistan is 11 years compared to an average of seven years for all developing countries. It has been shown that compared to India there was a sharp decline in growth of total factor productivity in Pakistan after 1975, which can be attributed to the poorer level of research and extension in Pakistan compared, for example, to India.¹³

- (d) A new dimension to the imperative of improving research capability in the crop sector is indicated by the possibility of declining yields per acre related with global warming. Given the sensitivity of wheat seed to increases in temperature, even a 2-degree centigrade increase in average summer temperatures could mean an absolute yield decline of between 10 to 16 percent during the 21st century.¹⁴ With a 2.8 percent population growth, even a decline of 5 percent in yield per acre associated with global warming could mean serious food deficits and high food inflation rates for Pakistan, with relatively greater adverse consequences for the poor. It is, therefore, necessary to develop heat resistant varieties of food grains.

The current ineffectiveness of agriculture research and poor diffusion amongst farmers is a cause for concern. This is particularly so in a situation where future agriculture growth and labour absorption will have to depend more on input efficiency than on enlargement of irrigated acreage and input intensification, which were the major sources of agriculture growth in the past.

- (e) One of the most important constraints to sustainable growth in the crop sector is the degradation of soils resulting from improper agricultural practices such as: (i) lack of crop rotation and the resultant loss of humus in the topsoil; (ii) stripping of topsoil and the resultant loss of fertility associated with

overgrazing; (iii) water erosion along hillsides and river banks due to the cutting down of trees and depletion of natural vegetation. According to one estimate, over 11 million hectares have been affected by water erosion and 5 million hectares by wind erosion.¹⁵

1.4.1 *Policy Implications:*

- *Institutional change for improved irrigation efficiency.* The poor maintenance and operation of the canal irrigation system that is a major constraint to the rate of crop sector growth, is associated with both a decline in the efficiency of the irrigation department as well as inadequate funding. Given the lack of motivation, management capability and funding, a restructuring of the role, functioning and organization of the irrigation department may be necessary. Therefore the required policy initiative is to develop a more cost-effective and decentralized institutional structure, involving local communities in the operation and maintenance of canals and water courses. In this context, autonomous community organizations of water users along individual distributaries need to be formed and then take responsibility for both revenue collection and maintenance.
- *Policies for improved seeds, agriculture research and diffusion:*
 - *Seeds, Agriculture Research and Diffusion.* It is well known that high yielding varieties of seed introduced at a given point in time gradually lose their potency through reuse, the changing micro structure of soils, and the changing ecology of microorganisms in the topsoil. Therefore, the breeding of more vigorous seed varieties adapted to local environmental conditions, and their diffusion amongst farmers, is required through an effective research and extension program.

There is currently no organized seed industry in Pakistan to meet the needs of farmers for the supply of vigorous varieties of seeds for even the major crops. The existing institutional framework for agriculture research suffers from a proliferation of research institutes which are inadequately

funded, often lack professional expertise, proper equipment and the research environment necessary to produce significant results. Finally, there is considerable overlapping of research responsibilities across institutes. Consequently, research has by and large failed to produce operationally usable results, much less increase input efficiency. Seed varieties research, where it has produced new seeds, has involved a large time lag in getting research to the farmers. In wheat, for example, the average age of seed varieties is 11 years, compared to seven years for all developing countries. It has been shown that there was a sharp decline in growth of total factor productivity in Pakistan after 1975. Pakistan's lower factor productivity growth compared to India can be attributed to the poorer level of research and extension in Pakistan compared to India.¹⁶

The following issues may be identified for research and subsequent diffusion:

- i) Development of (a) new heat resistant varieties of wheat, (b) short duration and late sowing varieties of wheat to enable multiple cropping, (c) heat resistant, pest resistant, short duration and high yielding varieties of cotton, (d) development of short duration and high yielding varieties of pulses and oilseeds to fit into the cropping pattern of late Rabi/late Kharif crops.
- ii) Rehabilitation of agriculture in saline and waterlogged soils.
- iii) Improvement of barani agriculture by research into designs of low-cost rainwater reservoirs and chalk dams for water runoff, for irrigation and soil conservation.
- iv) Efficient harvest and post harvest handling technology for different crops.

- v) Development of hybrid seeds of Maize, Sorghum, Sunflower and other crops.

On the basis of wide ranging consultations with farmers in the Punjab and Frontier provinces as well as with officials concerned with agriculture research during the last two years, it can be proposed that for more effective research and its diffusion amongst farmers it may be necessary to take the following initiatives:

- i) Restructure the existing institutional framework for seed development in particular and agriculture research in general to:
(a) increase professionalism; (b) improve the monitoring and evaluation of research work.
- ii) Focus research on improving input productivity at the region-specific level. In this context the outcomes of controlled experiments at research institutes need to be tailored to the specific needs and conditions of farms in the region.
- iii) Maintain regular interaction between research workers and farmers in the field by establishing an institutional linkage between research and village level institutions for diffusion of such research. Village level community organizations of farmers for participatory development have demonstrated the ability for fruitful dialogue with research and extension institutions in the government and nongovernmental sector.

Such interactions amongst farmers and agricultural researchers could redirect research to the specific needs and conditions of farmers and also enable a more rapid adoption of improved seeds and agricultural practices. Support organizations such as the PRSP in the Punjab (during August to October, 1998), and AKRSP in the northern areas (during the early 1990s) have demonstrated an ability for facilitating the adoption of new

knowledge and agricultural practices, particularly in cases where such adoption requires training and credit to farmers at the village level.

- *Soils and Agricultural Practices.* One of the most important constraints to sustainable growth and employment in the crop sector is the degradation of soils resulting from improper agricultural practices such as: (i) lack of crop rotation and the resultant loss of humus in the topsoil; (ii) stripping of topsoil and the resultant loss of fertility associated with overgrazing; (iii) water erosion along hillsides and river banks due to the cutting down of trees and depletion of natural vegetation which constitutes a water absorber and hence protection against erosion. According to one estimate,¹⁷ over 11 million hectares have been affected by water erosion and 5 million hectares by wind erosion.

Degradation of soils may be an important factor in the low and declining growth in yields per acre in Pakistan's crop sector. For example, the average annual increase in yield per acre of wheat during 1990s in Pakistan has been 1.8 percent, compared to 2.9 percent in the Indian Punjab, and 2.7 percent for all developing countries. A recent study suggests that the observed declining yield response to input use in Pakistan's agriculture is indicative of increasing soil degradation.¹⁸ It is clear that in order to create a sustainable basis for accelerating agricultural growth and employment in the future it would be necessary to induce agricultural practices through which the organic material in the topsoil can be replenished and maintained. The existing extension services do not have the outreach, motivation, and management capability to achieve the adoption of sustainable agricultural practices at the farm level. What is required is to build village level organizations of farmers, backed by sensitive support institutions which can demonstrate the efficacy of such agricultural practices to their members, together with training and accessing of technical support from government line departments, donor agencies, private sector firms and specialized NGOs.

I.5 Some Constraints to the Growth of the Large Scale Manufacturing Sector

The growth rate of the large scale manufacturing sector was 12.43% in the period 1959/60 to 1969/70, and fell to 2.21% in the period 1996/97 to 1999/2000. In the subsequent four years the growth of this sector accelerated sharply, but has begun to decline again in the last two years (see Chapter 3). The factors underlying the tendency for large scale manufacturing to decline are as follows:

- (a) A fundamental structural constraint to industrial growth as indeed the underlying factor in slow export growth, is the failure to diversify exports. The large scale manufacturing output, particularly exports, are concentrated in the traditional low value added end of textiles.
- (b) A changed pattern of global demand for industrial products with a shift towards higher value added and knowledge intensive products. Pakistan's industrial structure was not positioned to respond quickly to these changed market conditions.
- (c) An erosion of the domestic framework within which investment and growth is sustained. This includes: (i) a continued threat to the life and property of citizens due to the persistent poor law and order situation; (ii) high electricity tariffs and relatively high interest rates (though the latter have fallen this year); (iii) a lack of trained professionals, especially in the high skill sector; (iv) an inadequate technological base through which industry can respond in a flexible way to changing patterns of demand; (v) an adverse policy environment in the past within which tariff and export incentives were distorted against those entrepreneurs who were seeking to improve quality and productivity for export growth; (vi) the dumping of smuggled, poor quality and extremely low priced imported goods which are in many cases counterfeit copies of branded Pakistani manufactured goods.

1.5.1 Policy Implications:

- To induce sustained growth in the manufacturing sector the present institutional structure characterized by rent generation would need to give way to an open access economy where all direct and indirect subsidies are removed and the

manufacturing sector subjected to a competitive environment in which there can be growth in efficiency, innovation and productivity.

- The emergence of a democratic government and the rule of law under which the security of life and property of citizens can be ensured and contracts can be enforced.
- Increased capacity for electricity generation and improved quality of distribution to provide a stable electricity supply at a price lower than the present exorbitant one.
- Enforcement by the government of international law and WTO regulations to prevent the import into Pakistan from China of counterfeits of branded domestic manufactured goods.

II. RESTRUCTURING GROWTH FOR FASTER POVERTY REDUCTION¹⁹

A four-pronged revival strategy needs to be undertaken in light of the structural constraints to growth and poverty alleviation discussed in Section I.

II.1 Improving the Supply of Irrigation Water

Pakistan's irrigation system is currently in a state of acute disrepair due to decades of poor maintenance. The first element of the growth strategy should be a national campaign on a war footing to rehabilitate it. Such a campaign would involve organizing semi-skilled labour for: (i) the desilting of canals; (ii) strengthening the banks; (iii) organizing villagers for making “Pucca Khaalas” (concrete lined watercourses); (iv) improving the gradient of watercourses and farmlands in order to improve both the delivery and application efficiencies of irrigation.

Such a campaign, being inherently labour intensive, would not only generate employment rapidly but would also help to improve water availability and yields per acre at the farm level. If the campaign is professionally designed and managed, the funding for financing wage payments to the newly employed labour force could be sought from multilateral agencies, some of which have poverty alleviation and sustainable agricultural growth as

their priority concerns. The district level development institutions in the local government system could coordinate with union councils, village development councils, and autonomous farmers associations to implement such a campaign.

II.2 Infrastructure Development

In addition to the campaign for improved maintenance of the irrigation system, other labour intensive infrastructure projects should also be undertaken to simultaneously generate employment and stimulate aggregate demand in the economy. These include: (i) building of roads from farms to markets; (ii) national highways and ports; (iii) upgrading the railway system and enlarging its transport capacity for bulk cargo; (iv) an improved communication system; and (v) increased production of cheaper energy through domestically available coal rather than imported furnace oil.²⁰

II.3 Milk, Marine Fisheries and High Value-Added Agriculture Products

The third element of the revival strategy is to rapidly develop export-led production capacity for milk, fisheries, and high value-added agricultural products such as fruits, vegetables, and flowers. Let us illustrate this initiative by using the example of milk. Pakistan is currently producing about 177 billion rupees worth of milk annually for domestic consumption. This makes milk the largest agricultural product because Pakistan's largest crop, wheat, has an annual production value of about 111 billion rupees. Unlike wheat, however, the output of milk can be accelerated sharply within a couple of years. Currently Pakistan's milch cattle yield per animal is one-fifth of the European average. Demonstrable experience in the field has shown that the milk yields per animal in Pakistan can be doubled within two years through scientific feeding, breeding, and marketing. If the institutional framework could be established for training the farmers in scientific feeding and breeding, and if the logistics could be set up to collect milk from the farm door by means of refrigerated transport, milk output in Pakistan could be doubled. This would have a dramatic impact not only on the incomes of the poor peasants, but also on exports and overall GDP growth. (Akmal Hussain, 1999).

Pakistan lies at the hub of milk deficit regions such as Central Asia, West Asia and Southeast Asia. Hence it could be argued that if milk output in Pakistan could be doubled, export earnings would increase to such an extent that they would make a major contribution to overcoming the balance of trade deficit. Such an initiative therefore can lead to accelerated exports, higher GDP growth and improved income distribution in Pakistan. A possible institutional framework for such an initiative could be the establishment of dairy development boards at the provincial levels linked up with the development institutions at the district and union council levels in the local government structure.

Marine fisheries also have significant potential for improving foreign exchange earnings although not as large as the potential for milk. Here again, what is required is improved institutional support and better management rather than huge investments by the government. The expansion in the export of marine fisheries is constrained because the storage facilities for transportation do not match international quality standards. Currently, alternate layers of fish and hard sharp-edged ice are placed in containers on the boats. Under the weight of the upper layers of fish and the sharp-edged ice, fish at the lower layers are crushed, and the resultant bleeding causes putrefaction. To avoid this, it is necessary to provide shelves for layered storage of fish in boats, topped by dry ice, with fiberglass covers to maintain the European Union standards of minus 7°C temperature during transportation. An export potential of 300 million dollars exists over the next three years if such improved management of the marine fisheries industry could be achieved.

Similarly, the high value-added production and export of fruits, vegetables, and flowers would require: (i) institutional support for improved quality of output; (ii) improved grading and packaging; and (iii) refrigerated transport right up to the cargo terminals for air freight to the export market.

II.4 Rapid Growth of Small Scale Enterprises (SSEs)

The fourth element of the strategy would be to provide the institutional support necessary for the rapid growth of small scale enterprises. These SSEs include high value-added

units in light engineering automotive parts, moulds, dyes, machine tools and electronics and computer software.

The training of a large number of software experts with requisite support in credit and marketing could quickly induce a significant increase in software exports from Pakistan. Pakistan could build a pool of software experts for a large increase in export earnings. This would of course require a proactive government to establish joint ventures between large software companies such as Microsoft and Pakistan's private sector institutions such as LUMS and INFORMATICS. The Ministry of Science and Technology is already moving rapidly in facilitating the growth of information technology in Pakistan. In this sub-section however we will focus on small scale manufacturing enterprises.

Small scale industries have a low gestation period, are labour intensive, and can generate a larger output per unit of investment compared to the large scale manufacturing sector. Therefore the rapid growth of small scale enterprises would not only accelerate economic growth in the medium-term at relatively low levels of investment, but would also increase employment and exports for given levels of GDP growth. The key strategic issue in accelerating the growth of SSEs is to enable them to shift to the high value-added, high growth end of the product market.

A large number of SSEs in the Punjab and the NWFP have considerable potential for growth and high value-added production such as components for engineering goods or components of high quality farm implements for the large scale manufacturing sector.²¹ Yet they are in many cases producing low value added items like steel shutters or car exhaust pipes, resulting in low profitability, low savings, and slow growth.

II.4.1 *Constraints to the Rapid Growth of SSEs:* Small scale enterprises in Pakistan's small towns face the following major constraints:

- (i) Inability of small units to get vending contracts for the manufacture of components from the large scale manufacturing sector (LSM).

- (ii) Due to lack of expertise in production management and the frequent inability to achieve quality control it becomes difficult to meet tight delivery schedules.
- (iii) Lack of specific skills like advanced mill work, metal fabrication, precision welding, all of which are needed for producing quality products with low tolerances and precise dimensional control. In other cases accounting and management skills may be inadequate.
- (iv) Difficulty faced by small units in getting good quality raw materials, which often can only be ordered in bulk (for which the small entrepreneurs do not have the working capital), and from distant large cities.
- (v) Lack of specialized equipment.
- (vi) Absence of fabrication facilities such as forging, heat treatment and surface treatment which are required for manufacture of high value-added products, but are too expensive for any one small unit to set up.
- (vii) Lack of capital for investment and absence of credit facilities.

II.4.2 *Overcoming the Constraints to the Growth of SSEs*: Overcoming the aforementioned constraints would involve providing institutional support in terms of credit, quality control management, skill training and marketing. This could be done by facilitating the establishment of industrial support centers (ISCs) located in the specified growth nodes in selected towns where the entrepreneurial and technical potential as well as markets already exist. Such ISCs, while being facilitated by the government and autonomous organizations such as SMEDA, can and should be in the private sector and market-driven.

The concept of the ISCs is based on the fact that small scale industrialists in Pakistan have already demonstrated a high degree of entrepreneurship, innovation and efficient utilization of capital. The ISCs would provide an opportunity for rapid growth to SSEs

through local participation in extension services, prototype development, and diffusion of improved technologies, equipment, and management procedures. The ISCs would constitute a decentralized system which ensures continuous easy access to a comprehensive package of support services such as credit, skill training, managerial advice and technical assistance. The ISCs could also be linked up with national research centres and donor agencies for drawing upon the technical expertise and financial resources of these agencies in the service of small scale industries (SSI).

The Industrial Support Centres could have the following functional dimensions:

(i) Marketing:

Provision of orders from the large scale manufacturing sector for components, and from farmers for farm implements. These orders would then be sub-contracted to the cluster of SSI units that the ISC is supposed to serve. The individual order would be sub-contracted to the SSI on the basis of the skills and potential strengths of the unit concerned.

(ii) Monitoring and Quality Control:

Having given the sub-contract, the ISC would then monitor the units closely and help pinpoint and overcome unit-specific bottlenecks to ensure timely delivery and quality control of the manufactured products. These bottlenecks may be specialized skills, equipment, good quality raw materials or credit.

(iii) Skill Training and Product Development:

Skill training for technicians could be provided by the new good quality vocational training institutes (VTIs) established by the Vocational Training Council of Punjab. Similar VTIs could be established in other provinces. The ISC would provide specialized supplementary skill training on its premises to workers in the satellite SSI units when required. At the same time, it would provide advice on jigs, fixtures, special tools and product development where required.

(iv) Forging and Heat Treatment Facilities:

The ISCs would establish at their premises plants for forging, heat treatment and surface treatment. The SSI units could come to the ISC to get such fabrication done on the products they are manufacturing on sub-contract, and pay a mutually agreed price for this job to the ISC.

(v) Credit:

The ISC would provide credit to the SSI for the purchase of new equipment and raw materials. In cases where raw materials are available in bulk supply, the ISC could buy it from the source, stock it on its premises and sell at a reasonable price to units as and when they need them.

III. DIRECT ATTACK ON POVERTY

Establishing the institutional basis for enabling the poor to increase their incomes, savings and investment, would not only constitute a direct attack on poverty but would also contribute to a faster and more equitable economic growth process. In this section we will begin by specifying the Participatory Development paradigm which has been formulated and put into practice successfully in a number of South Asian countries (including Pakistan) by a group of action researchers from South Asia²². We examine the issue of empowerment of the poor. In this context we will explore the institutional imperatives of making the newly emerging local government structures more effective in achieving the empowerment of the poor, particularly poor women.

III.1 The Concept of Participatory Development²³

Participatory Development in its broadest sense is a process which involves the participation of the poor at the village/mohalla levels to build their human, natural and economic resource base for breaking out of the poverty nexus. It specifically aims at achieving a localized capital accumulation process based on the progressive development of group identity, skill development, and local resource generation. (Akmal Hussain, 1994)²⁴.

At this level of generalization the concept has three key elements:

- (a) Process: It is a process whose moving force is the growth of *consciousness*, of *group identity* and the realization in practice of the creative potential of the poor.
- (b) Empowerment: The process of reconstructing a group identity, of raising consciousness, of acquiring new skills and upgrading their knowledge base, progressively imparts to the poor a new power over the economic and social forces that fashion their daily lives.

It is through this 'power' that the poor shift out of the perception of being passive 'victims' of the process that reproduces their poverty. They become the vital subjects in initiating interventions that progressively improve their economic and social condition, and overcome poverty.

- (c) Participation: The acquisition of the power to break the vicious circle of poverty is based on *participation* within an organization in a *series* of projects. This participation is not through 'representatives' who act on their behalf but rather the actual involvement of each member of the organization in project identification, formulation, implementation and evaluation. It is in open meetings of ordinary members at the village/mohalla level of organization that decisions are collectively taken, and work responsibilities assigned on issues such as income generation projects, savings funds, conservation practices in land use, infrastructure construction and asset creation.

III.1.1 *The Dynamics Of Participatory Development*: The process of Participatory Development proceeds through a dynamic interaction between the achievement of specific objectives for improving the resource position of the local community and the sense of community identity. Collective actions for specific objectives such as a small irrigation project, fertilizer manufacture through organic waste, the provision of clean drinking water, or production activities such as fruit processing, can be an entry point for a localized capital accumulation process, leading to group savings schemes, reinvestment and asset creation. The dynamics

of Participatory Development are based on the possibility that with the achievement of such specific objectives for an improved resource position, the community would acquire greater self confidence and strengthen its group identity.

III.2 Empowerment and Autonomous Organizations of the Poor

(i) *The Meaning of Empowerment:* Since the term empowerment has been loosely used in much of the literature on development it may be helpful to specify its meaning in the context of this section. Empowerment means enabling the poor to build their human capabilities and economic resource base for breaking out of the poverty nexus. It is a process of reconstructing a group identity, of raising consciousness, of acquiring new skills and of achieving better access over markets and institutions for a sustainable increase in incomes. Such a process progressively imparts to the poor a new *power* over the economic and social forces that fashion their daily lives. It is through this power that the poor shift out of the perception of being passive victims of the process that perpetuates their poverty. Thus they become active subjects in initiating interventions that progressively improve their economic and social condition to overcome poverty²⁵.

(ii) *Empowering the Poor:* The economic strategy requires a national campaign to empower the poor at the level of village/mohallah, Union Council, Tehsil and District. The idea is to facilitate the growth of autonomous community organizations of the poor at the village/mohallah level to be able to break out of poverty. Through these community organizations the poor can identify income generating projects, initially at the household level, acquire skill training from a variety of sources such as government line departments, autonomous institutions, private sector firms, NGOs, and donors, and access credit for micro enterprise projects through apex organizations such as the Pakistan Poverty Alleviation Fund, Khushali Bank, Small Business Finance Corporation, and commercial banks. Special organizational arrangements would need to be made in these apex institutions to take credit to poor women and women's community organizations, since poor women have even lesser access over institutional credit compared to poor men.

It is important that such village level community based organizations (CBOs) be autonomous and be permitted to form cluster apex organisations with other CBOs. Autonomous CBOs, by means of social mobilisation, skill training, increased productivity, increased income, savings and investment would begin a process of localised capital accumulation. Such a process, which we have called Participatory Development²⁶, would be integrally linked with the emergence of a new consciousness of empowerment. The poor can begin to take autonomous initiatives to improve their material conditions of life. They would thus break out of the poverty nexus and shift from being victims to active subjects of social and economic change. Such a process of village level increases in productivity, incomes and savings would not only constitute a direct attack on the poverty problem but would also contribute to a faster and more equitable macroeconomic growth²⁷.

Such autonomous organizations of the poor could not only become a framework for grassroots economic growth, but would also constitute countervailing power to that of the power structures of local elites. At the same time, these autonomous organizations of the poor would enable the individual poor household to get better access over input and output markets.

Facilitating the emergence of autonomous organizations of the poor, particularly organizations of poor women, could enable the newly established local government institutions to function in a more equitable and effective manner. The equity would be with respect to class as well as gender. This would require establishing institutionalized links between autonomous organizations of the poor and local government bodies at the village, Union Council, Tehsil and District levels. *These institutional links between organizations of the poor and elected local bodies would enable more participatory and equitable processes of project identification, design and implementation for local level development.*

III.3 Devolution for Empowerment versus Decentralization

Almost every country in South Asia has undertaken decentralization reforms with the stated purpose of empowering the poor and thereby achieving good governance. Yet

there are a number of pitfalls in the implementation of these reforms. As Pakistan embarks on its own programme of devolution, it may be useful to point out that devolution cannot simply be seen in terms of a decentralization of administrative functions within existing government structures. Rather, decentralization has to create the space within which an institutionalized relationship can begin between autonomous organizations of the poor and various tiers of local government.

A number of pitfalls can emerge in the implementation of devolution reforms. Unless they are addressed at an early stage these reforms may not achieve the desired objectives. The following five lessons may be drawn on the basis of case studies of decentralization reforms in South Asian countries²⁸:

- (i) In Pakistan's case, Ali Cheema and Shandana Khan Mohmand in an important study have shown that historically local government reforms have been used by non-representative military regimes to centralize political power. They argue that the recent local government reforms unlike the past have created greater autonomy for the elected local tier, yet they continue to remain a "complementary institutional change for the military's bid for political centralization". In this context they show that the current local government rules of non-party, indirect elections and the practice of interventions at the local level by influential individuals has accentuated "clientelist politics" (Cheema and Mohmand, 2003)²⁹.
- (ii) Formal decentralization of administrative power in itself does not necessarily help the poor as pointed out by S.K. Upadhyay³⁰ in the context of Nepal. Empowerment of the poor, he argues, requires that formal decentralization must be accompanied by a rigorous process of social mobilization. This involves consciousness raising, sensitization and building organisations of the poor. It is only such a process that will enable the poor to acquire countervailing power. Without this dimension of countervailing power, decentralization will merely result in the appropriation by elites of the "fruits of decentralization for their own narrow benefit". In this context Shaikh Maqsood Ali³¹ makes an important distinction between decentralization of administrative power in favour of its regional/local offices as opposed to decentralization in favour of the local people

in the case of Bangladesh. Apart from this it could be argued that in areas where asymmetric structures of power prevail (for example, coalitions of rich peasants/landlord, local influentials such as traders, revenue and police officials) mere decentralization of administrative power could intensify the oppression of the poor.

- (iii) The second lesson emerging from the case studies is that if decentralization is to enable empowerment of the poor, it must be holistic. i.e., it incorporates political power, enhanced confidence, emergence of social consciousness, and administrative and fiscal devolution. At the same time it must reach down to the grassroots level through various intermediate levels, with institutionalized participation of the poor in governance at every level. Upadhyay refers to this holism and multi-layered devolution in the Nepal case study.
- (iv) The political dimension of decentralization must be inclusive and capable of absorbing what Upadhyay calls “diverse ethnic and other identity groups as equal partners occupying spaces in the polity”. He argues that the centralized polity excludes such identities, which may be a factor in ethnic strife and social polarization. While the poor once organized are able to generate new resources at the local level, as participatory development is scaled up, internally generated resources may be insufficient. Therefore externally generated resources become necessary, but these have to be carefully applied through a sensitive support system that strengthens rather than weakens the autonomy of the organisations of the poor. Such a support system could be provided by a combination of apex NGOs, state institutions, banks and local governments. Upadhyay emphasizes the importance of such support organisations being sensitized by a pro-poor perspective.
- (v) In the case of urban areas it appears that communities who have developed their own funds and managed development themselves are able to establish a more equitable relationship with local government institutions³². It can be argued that to enable urban communities to manage their own development it is necessary to

provide technical advice and managerial guidance. At the same time an institutionalized process of consultation and coordination may be necessary between urban community organizations and local government institutions to prevent them from working at cross-purposes.

CONCLUSION

In this Appendix I, we have proposed an economic strategy in the context of the drivers of change. The economic strategy aims to achieve pro-poor growth in a two-fold process: (i) Restructuring the macroeconomic growth process in favour of the poor; (ii) Participatory Development in which the poor can get organized, acquire new skills, and increase productivity and incomes to save and invest in a sustained grassroots growth process. Through such a process the poor can become active subjects in development whereby in overcoming their own poverty they also contribute to achieving higher and more equitable GDP growth.

Finally we have drawn upon various country studies on devolution reforms in South Asia to suggest that if these reforms are to go beyond mere decentralization of administrative functions to bolster unrepresentative regimes at the national level, then an institutional change in the empowerment of the poor at the local level is necessary. This involves building institutionalized links between organizations of the poor and various tiers of local government, and devolution of not only responsibility but also of power and resources to local governments. Through such institutional changes, autonomous organizations of the poor can systematically participate in decisions that affect their economic, social and environmental conditions at the local level.

APPENDIX II

THE SOUTH ASIA HEALTH FOUNDATION: A CONCEPT NOTE

The aim of the South Asia Health Foundation (SAHF) would be to make the benefits of peace and cooperation (discussed in the triggers of change analysis in Chapter 4) palpable to the people of South Asia through improved healthcare.

The Logic: Health, Poverty and Development in South Asia. In South Asia as much as 43 percent of the population lives in absolute poverty³³. The majority of the poor suffer from diseases requiring urgent medical care but are unable to afford it. The high costs of medical care for those on the poverty line that somehow manage to access it, push them further into debt. Others, who cannot access healthcare, suffer an income loss due to reduced productivity or loss of livelihood resulting from illness. Indeed illness in South Asia is a major factor that pushes people into poverty, and those already poor into deeper poverty³⁴. Therefore provision of preventive and curative health facilities would be a strategic intervention for poverty reduction, human development and economic growth in the region.

Objectives. The basic objective of SAHF would be to establish high quality model hospitals, together with satellite health clinics and outreach programmes for preventive healthcare in selected backward regions of each of the countries of South Asia. The specific objectives would be as follows:

- (a) *SAHF District Hospitals:* To start with, SAHF would establish 25 general hospitals located in relatively low income regions (districts) and distributed across each of the countries of South Asia, according to an agreed criterion³⁵. Each hospital, in terms of the professional standard of medical care and the quality of humanity with which it is given, would set standards for others in both the private and public sectors to follow. The doctors, nurses, medical technicians and some of the administrative staff of the SAHF hospitals in a particular country could be drawn from other

South Asian countries to signify the commitment of the South Asian community to the people of each country in the region. The healing and humanity in these hospitals would stand as a living symbol of both the promise and fulfillment of South Asian cooperation.

- (b) *SAHF Community Based Preventive Healthcare:* Each SAHF district hospital would initiate community-based campaigns for preventive healthcare. They would also design and disseminate information packages on disease control during periods of epidemics, and vital information regarding hygiene and health measures at the household level.
- (c) *SAHF Network of Basic Health Units:* Each hospital would have a network of ten Basic Health Units (BHUs) to provide maximum coverage of the population and convenience of access over a modest sized but flexible healthcare system. The BHUs in the hinterland of the SAHF district hospital would provide initial assessments of disease and filter out patients who have minor illnesses treatable at the BHU level, while referring those with more serious medical problems for treatment at the SAHF district hospital.

The BHUs would also act as conduits for SAHF district hospital initiatives in community action and information dissemination for preventive healthcare.

The BHUs, in spite of the limited scope of their medical service would, like the SAHF hospitals, set new standards of professionalism and humanity in their medical care.

- (d) *SAHF Mother and Child Health Clinics:* Each hospital would also have a network of ten Mother and Child Health Clinics in its hinterland region. These clinics would provide reproductive healthcare, prenatal and post-natal care to mothers and basic pediatric services to infants.

- (e) *SAHF Franchise System of Health Facilities:* In order to widen the coverage and improve the quality of medical care in the district, the high quality standards set by the SAHF could be used as a basis for a franchise system for others in the private sector who may wish to set up district hospitals, basic health units or mother and child health clinics of their own, but with SAHF standards.

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- ¹ Some parts of this section are based on the author's work embodied in the following publications:
- (i) Akmal Hussain, A Policy for Pro Poor Growth, paper in Towards Pro Poor Growth Policies in Pakistan, Proceedings of the Pro-Poor Growth Policies Symposium, 17th March 2003, UNDP-PIDE, Islamabad, 2003.
 - (ii) Akmal Hussain, with inputs from A.R. Kemal, Agha Imran Hamid, Khawar Mumtaz and Imran Ali, Poverty, Growth and Governance, UNDP, Pakistan National Human Development Report 2003, Oxford University Karachi, 2003.
 - (iii) Akmal Hussain, Labour Absorption in Pakistan's Rural Sector, Final Report, ILO/ARTEP, (Mimeo), September 1989.
 - (iv) Akmal Hussain, Poverty Alleviation in Pakistan, Vanguard, Lahore 1994.
 - (v) Akmal Hussain: Employment Generation, Poverty Alleviation and Growth in Pakistan's Rural Sector: Policies for Institutional Change, Report prepared for the ILO/CEPR (Mimeo), March 1999.
- ² For a more detailed analysis of this phenomenon, see: Akmal Hussain: Pro Poor Growth, Participatory Development and Decentralization: Paradigms and Praxis, chapter in: P. Wignaraja et.al. (ed): Pro-Poor Growth and Governance in South Asia, Case Profiles, Oxford University Press (forthcoming).
- ³ Transparency International, Perceptions Index 1999 and 2005, cited in Talat Anwar, Measurement of Absolute Poverty and Governance in Pakistan: 1998-99 and 2004-05, paper presented in the PIDE-PSDE, 22nd Annual General Meeting and Conference, 19-21 December 2006, Table 4, page 15.
- ⁴ Shahid Javed Burki, Pakistan: Fifty Years of Nationhood, Vanguard Books, Lahore, 2004, page 174.
- ⁵ Talat Anwar, Measurement of Absolute Poverty and Governance in Pakistan: 1998-99 and 2004-05, paper presented in the PIDE-PSDE, 22nd Annual General Meeting and Conference, 19-21 December 2006.
- ⁶ Douglass C. North, John Joseph Wallis, Barry R. Weingast, op.cit.
- ⁷ Akmal Hussain, et.al, Poverty, Growth and Governance, UNDP, Pakistan National Human Development Report 2003, Oxford University Press, Karachi, 2003.
- ⁸ National Health Survey of Pakistan, conducted jointly by the Pakistan Medical Research Council, Federal Bureau of Statistics, Pakistan and the Department of Health and Human Services, USA, published by Pakistan Medical Research Council, Islamabad, 1998, page 127.
- ⁹ This survey was part of the study embodied in the Pakistan National Human Development Report, UNDP. Published later: UNDP, Pakistan National Human Development Report 2003, Oxford University Press, Karachi, 2003.
- ¹⁰ This sub-section is based on a research paper by Akmal Hussain: Employment Generation, Poverty Alleviation and Growth in Pakistan's Rural Sector: Policies for Institutional Change, Report prepared for the ILO/CEPR, (Mimeo), March 1999.

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- ¹¹ Interim Poverty Reduction Strategy Paper, Government of Pakistan, November 2001, page 23.
- ¹² Akmal Hussain, ILO/CEPR, op.cit.
- ¹³ Mark W. Rosegrant and Robert Evenson: "Agricultural Productivity Growth in Pakistan and India: A comparative Analysis", presented at Pakistan Institute of Development Economics Ninth Annual General Meeting, Islamabad, 1993.
- ¹⁴ If atmospheric carbon is doubled, the average summer temperatures in Pakistan are expected to increase by 1.5 C to 4.5 C (base average of 2.5 C), over the next 70 years. This could lead to a decline in wheat yields from 10 percent to 60 percent, depending on the type of wheat seed, planting time, and related atmospheric/weather conditions. See: Qureshi, Ata and Iglesias: Implications of Global Climate Change for Pakistan Agriculture: Impacts on Simulated Wheat Production, Climate Institute, Washington, D. C. USA, 1992.
- ¹⁵ Alim Mian and Yasin Mirza: Pakistan Soil Resources, National Conservation Strategy, Sector Paper IV, Environment and Urban Affairs Division, with IUCN, 1993.
- ¹⁶ Mark W. Rosegrant and Robert Evenson: "Agricultural Productivity Growth in Pakistan and India: A comparative Analysis", presented at Pakistan Institute of Development Economics Ninth Annual General Meeting, Islamabad, 1993.
- ¹⁷ Alim Mian and Yasin Mirza: Pakistan Soil Resources, National Conservation Strategy, Sector Paper IV, Environment and Urban Affairs Division, with IUCN, 1993.
- ¹⁸ Derek Byerlee: Agricultural Productivity in Pakistan, Problems and Potential, World Bank Agriculture Sector Review, cited in World Bank Report No. 13092 – PAK, op. cit.
- ¹⁹ This section is based on a paper presented to the Economic Advisory Board of the Government of Pakistan by Akmal Hussain: A Medium Term Strategy of Economic Revival, November 15, 1999. (Also published in the daily Dawn on November 25 and 26, 1999). Some of the material contained in this paper was later used in: Akmal Hussain et.al., UNDP, Pakistan National Human Development Report 2003, Oxford University Press, Karachi, 2003.
- Note: Some of the proposals related with the agriculture sector have been incorporated in the Interim Poverty Reduction Strategy Paper of the Government of Pakistan, November 2001, pages 22 and 23.
- ²⁰ In this regard the Planning Commission has formulated a valuable set of policy proposals for energy development, See: Government of Pakistan, Planning Commission: Ten Year Perspective Plan and Three Year Development Programme, Islamabad, September 1, 2001.
- ²¹ Akmal Hussain: Labour Absorption in Pakistan's Rural Sector, Final Report, ILO/ARTEP (Mimeo), September 20, 1989, pages 21 to 23.
- ²² See, for example:
- (i) Ponna Wignaraja, Akmal Hussain, Harsh Sethi and Ganeshan Wignaraja: Participatory Development, Learning from South Asia, United Nations Press, Tokyo and Oxford University Press, Karachi, 1991.
 - (ii) Akmal Hussain, Poverty Alleviation in Pakistan, Vanguard Books, 1994.

- (iii) Akmal Hussain, Punjab Rural Support Programme (PRSP), The First Four Months, Report to the Board of Directors of PRSP, 1998.

- 23 Akmal Hussain, Poverty Alleviation in Pakistan, Vanguard Books, 1994, pages 26 to 28.
- 24 Ibid.
- 25 For a case study based on implementing the Participatory Development approach in nine districts of the Punjab province, see, Akmal Hussain, Honourary Chief Executive Officer, Punjab Rural Support Programme (PRSP), The First Four Months Report to the Board of Directors, PRSP, 1998.
- 26 The concept of Participatory Development is formulated in: Akmal Hussain: Pakistan, A Strategy for Poverty Alleviation, Vanguard, Lahore, 1994, pages 26 to 29.
- Also see: P. Wignaraja, A. Hussain, H. Sethi & G. Wignaraja: Participatory Development: Learning from South Asia, Oxford University Press, 1991.
- 27 For a more detailed discussion of this issue, see: Akmal Hussain: Poverty, Growth and Governance, Chapter in, V.A. Pai Panandiker (ed.): Problems of Governance in South Asia, Centre for Policy Research, New Delhi, 2000.
- 28 See: Akmal Hussain, et.al., "Lessons for Macro-Micro Policy" in P. Wignaraja and S. Sirivardana (ed.), Pro-Poor Growth and Governance in South Asia: Decentralization and Participatory Development, SAGE Publications, New Delhi and London 2004.
- 29 Ali Cheema and Shandana Khan Mohmand, Local Government Reforms in Pakistan: Legitimising Centralisation or a Driver for Pro-Poor Change?, LUMS (Mimeo), December 2003.
- 30 See: S.K. Upadhyay, The Nepal Case Study, in P. Wignaraja and S. Sirivardana (ed.) Pro Poor Growth and Governance in South Asia, op.cit.
- 31 See: Dr. Shaikh Maqsood Ali, The Bangladesh Case Study, in P. Wignaraja and S. Sirivardana (ed.), op.cit.
- 32 See: Arif Hassan, The Pakistan Case Study, in P. Wignaraja and S. Sirivardana (ed.), op.cit.
- 33 Mahbub ul Haq, Human Development in South Asia, 1997, Oxford University Press, Karachi, 1997.
- 34 Akmal Hussain, Pakistan National Human Development Report 2003, UNDP, Oxford University Press, Karachi, 2003.
- 35 This could be either in terms of the proportion a particular country has of the total poor population of South Asia, or the prevalence of disease as a percentage of the national population, or in terms of a broad inter-country balance in the distribution of the hospitals, or a combination of the above.